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VOLUME II

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Volume II

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Part I
Advertising

A Advertising Practice and Its Cultural Implications

[1]

Some Foreign Language Books on Advertising

Karl D. Reyer

About a year ago, my attention was called to a recent German Book, *Entwicklung der Reklame* by Dr Erwin Paneth. The bibliography contained in Paneth's text was provocative enough to cause me to look over the foreign language books in advertising in the Library of Congress. Naturally, this library does not possess all the foreign language advertising books, but only those sent in for copyright purposes.

In the hope that there may be members of the Association who are interested in such books, the author, title, and nature of content of each one is listed. The publisher or bookseller is mentioned in parenthesis. The German books are especially remarkable for their consideration of personal publicity and national propaganda. Some of them go into the economics of advertising rather thoroughly. It might be mentioned that Roy S. Durstine's 'Making Advertisements and Making Them Pay' has been published in German.

Cronau, Rudolf. Das Buch der Reklame. Geschichte, Wesen, und Praxis der Reklame. 1887. Ulm. (Wohlerschen Buchhandlung.) (1889. Leipzig. Peter Hobing)

An interesting book on the history and scope of advertising. Personal publicity by kaisers, kings, and fakirs, including Barnum, is dwelled upon. Contains many pictures.

Hartungen, Ch. V. Psychologie der Reklame. 1921. Stuttgart. (J.B. Metzlersche Buchdruckerei.)

A large technical book. No pictures. Contains a bibliography.

Hellweg, Werner. Die Auszenreklame in Stadt und Land. Hamburg. 1919 (Konrad Hanf D.W.B.)

The author of this book possesses the title of Regierungsbaumeister. Holding this position, he is able to write from actual contact with building regulations. The material deals with restrictions on outdoor hanging signs, window signs, and painted panels.

Lazarus, Gerhardt. Die Reklame durch Vermittlung der Post. 1923. Berlin. (Spaeth und Linde.)

An easily read monograph, containing a historical sketch of direct mail advertising. It lists the different forms of direct mail and outlines the psychological appeals to be used. One section is devoted to the economics of direct mail advertising. It discusses this type of advertising in relation to the market place. Costs are also considered.

Liesenberg, Carl. Persönliche, Geschäftliche, Politische Reklame. 1912. Neustadt an der Haardt. (Pfälzische Verlagsanstalt.)

A theoretical book concerning the different varieties of advertising and of publicity.

Mataja, Victor. Die Reklame. Eine Untersuchung über Ankundigungswesen und Werbetätigkeit im Geschäftsleben. 1910. Leipzig. (Duncker und Humboldt.) (Revised ? 1920)

A 490 page book containing no illustrations. Considerable space is devoted to the cost of advertising, its usefulness, and its influence on prices. The art and technique of advertising is discussed. Germans would probably say that this is one of their standard texts on the subject.

Munzinger, Dr Ludwig. Die Entwicklung der Inseratenwesen in den deutschen Zeitschriften. Heidelberg. 1902. (Carl Winter's Universitatsbuchhandlung.)

This 90 page monograph is a historical survey of newspaper advertising. It takes advertising in German newspapers from earliest times up to 1902.

Paneth, Erwin. Entwicklung der Reklame vom Altertum bis zur Gegenwart. 1926. Munchen and Berlin. (R. Oldenbourg.)

This 240 page discussion of all conceivable forms and types of advertising, publicity, and propaganda contains 168 aptly chosen illustrations. The author's definition of advertising is 'Advertising is conscious mass influence by word, pen, picture, sculpture, architecture, or action upon the mind and understanding of someone in order to promote attention, advantageous presentation, a favourable decision or desire, toward an object, a person, a country, or an idea'.

Albrucher, G. La Publicité Commerciale. Rôle Economique et sa Réglementation fiscal. 1923. (Les Presses Universitaires de France).

The title of this book explains the nature of the text material. Worthy of attention because of its recency.

Mermet, Emile. La Publicité. Histoire et Jurisprudence. 1879. A Chaix.

This book by a French lawyer deals with the legal phases of advertising. It is a complete

analysis of the different restrictions placed upon advertising – at least up to the date of publication.

Lancellotti, Arturo. Storia Aneddoterial della Reclame. 1912. Milan. (Riccard Quintieri.)

A historical sketch which looks uninteresting.

[2]

Richard W. Pollay

The Distorted Mirror: Reflections on the Unintended Consequences of Advertising

This article reviews the work of significant humanities and social science scholars for their thoughts and theories about advertising's social and cultural consequences. In brief, they view advertising as instrusive and environmental and its effects as inescapable and profound. They see it as reinforcing materialism, cynicism, irrationality, selfishness, anxiety, social competitiveness, sexual preoccupation, powerlessness, and/or a loss of self-respect. Drawing heavily on original sources, these ideas are synthesized into a framework that structures advertising's supposed effects and causalities. Also discussed are the problems and prospects for needed research and the moral imperative for this research.

> It is worth recognizing that the advertising man in some respects is as much a brain alterer as is the brain surgeon, but his tools and instruments are different. *Advertising Age* (1957).

WHILE the metaphor of brain surgery may be hyperbole, the inflated rhetoric so characteristic of advertising, it still contains an element of truth. Advertising is without doubt a formative influence within our culture, even though we do not yet know its exact effects. Given its pervasive and persuasive character, it is hard to argue otherwise. The proliferation and the intrusion of various media into the everyday lives of the citizenry make advertising environmental in nature, persistently encountered, and involuntarily experienced by the entire population. It surrounds us no matter where we turn, intruding into our communication media, our streets, and our very homes. It is designed to attract attention, to be readily intelligible, to change attitudes, and to command our behavior. Clearly not every advertisement accomplishes all of these aims, but just as clearly, much of it must—otherwise, advertisers are financially extravagant fools.

The applied behavioral technologies for consumer behavior and advertising research, like most technologies today, have grown increasingly sophisticated and elaborate. This gives at least the major advertiser a large arsenal of information and the technique with which to finetune a message, aided by an army of experienced professionals running market research surveys, focus groups, copy testing procedures, recall and awareness tests, and test markets. As Marshall McLuhan (1951, p. v) once commented: "Ours is the first age in which many thousands of the best trained minds have made it a full-time business to get inside the collective public mind . . . to get inside in order to manipulate, exploit, and control." Even if individual efforts often fail, the indirect effects of the overall system deserve careful consideration.

This consideration is all too rarely given to advertising by those most sophisticated in their knowledge of the processes of advertising strategy formation and advertisement creation. These scholars and practitioners, including those of us trained in the more

Richard W. Pollay is Curator, History of Advertising Archives, University of British Columbia. Research assistance was provided by Canada's Social Science and Humanities Research Council and the Acme Delivery Company. Constructive comments were made on preliminary versions of this article by Russell Belk, Jim Forbes, Gerry Gorn, Hal Kassarjian, Chuck Weinberg, and anonymous referees.

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general fields of consumer behavior and marketing, are by tradition focused on the study of advertising's practical consequence, sales promotion: everything that stimulates the purchase act or the intermediary steps toward that objective. Knowledge of the unintended social consequences of advertising, the social by-products of the exhortations to "buy products," is less helpful in professional school teaching or consulting. It is also potentially far more challenging. Advertising's unintended consequences are seen by many as a pollution of our psychological and social ecology, which raises moral alarm and tempts a defensive reaction from those of us whose expertise and sense of personal worth is drawn from our knowledge of, and at least implicit assistance in, the processes of persuasion. Thus, the concerns of nonbusiness academics and the general public are too often dismissed with a wave of the ideological wand. Commonly we appeal to some alternative value, as in the claim that unregulated advertising is a freedom of speech or essential to the efficient functioning of the economy, hardly perceiving that this is distractive argumentation.

Not all scholars assume that mass advertising of the character and scale we now experience is either inevitable or benign. Indeed, those from a wide range of disciplines have given the matter thought, including a surprising number of individuals whose fame and influence extend beyond their academic boundaries. This article reviews this scholarly thought. A priori such a review has the potential for setting a research agenda, for suggesting public policy, and for revising our ideas about the interplay between advertising and the social system in which it operates. This revised perspective may in turn lead to an increased sense of moral duty or social responsibility for individuals and organizations, professional and academic.

Who Are These People?

This survey of the literature encompasses all North American authors known to have written on the cultural character of advertising. While this study excludes the European Marxist tradition, the research process is otherwise a survey rather than a sampling, with no authors knowingly excluded. Those whose writings have been reviewed represent academic fields with diverse theoretical and methodological perspectives. While few of these authors have in-depth knowledge of advertising or marketing, they are far from ignorant observers. Generally, they are scholars of stature and include many who have already influenced our culture's intellectual history far more than anyone in the professional disciplines. Although the ideas reported here are echoed in multiple sources, the passages selected are primarily from those writers who are more famous, articulate, and influential.

A particularly strong example is historian Daniel Boorstin. His prolific and often profound output has propelled him from a distinguished chaired professorship at the University of Chicago, to serving as Librarian of Congress. Author of the trilogy, *The Americans* (1973), he has won the Bancroft prize and the Pulitzer Prize and, at last count, has garnered 18 honorary degrees. Some, like John Kenneth Galbraith, Margaret Mead, and Marshall McLuhan, have been honored with public attention and have had broad influence, while the fame and following of others, like Erich Fromm, George Katona, Clyde Kluckhohn, or Henry Steele Commanger, lie mainly in their own and closely allied fields.

This review includes (1) psychologists who view advertising as a source of learning or conditioning, with cognitive and affective results, (2) sociologists who emphasize the role modeling aspects of advertising and its impact on social behaviors, (3) anthropologists who see advertising in terms of rituals and symbols—incantations to give meaning to material objects and artifacts, (4) educators who question the influence of advertising on child development, and (5) communications specialists who view ads as propaganda and question their role within and influence upon mass media. Also represented is the work of linguists, semanticists, philosophers, theologians, political scientists, economists, and, perhaps the most integrative of the social scientists, historians. Information regarding the areas and distinctions of some of those surveyed appears in Figure 1, while the names and works of others appear only in the references and consulted sources listings.

Most of the criticism of advertising comes from those who focus on advertising's social role, whereas most of its defense comes from those who emphasize its economic functions. Still, not all economists are sanguine about advertising, nor are all other social scientists alarmed. This disparity of perspectives prevents an effective exchange of ideas, as the two sides (if there are but two sides) talk past one another, raising wholly different issues and reaching judgments on wholly different criteria. It will be of no surprise, then, that raising serious questions about advertising's social role is an inherently critical process. To ponder what advertising as an institution is doing to us as individuals or as a community; to wonder if it aids or impedes rational thought; to ask how it redirects our aspirations, or channels and prompts our emotions; to assess how it may alter our values and morality; to question any of these things is to cast doubt on the social value of advertising. Thus, we should fully expect this inquiry to illuminate those ways in which advertising might be a less than ideal cultural influence. What may be shocking, however, is the veritable absence of perceived positive influence.

FIGURE 1
Select Biographical Highlights

Name	Field	Distinctions*
Barnouw, Erik	Communications History	Professional advertising experience Editor, Columbia University Press Chief, Broadcasting Division, Library of Congress George Polk Award; Frank Luther Mott Award; Bancroft Prize in American History
Bell, Daniel	Sociology	Professor, Harvard University Editor, *The Public Interest, Daedalus* Fellow, Center for Advanced Studies in Behavioral Sciences Honorary degrees
Berman, Ronald	Humanities	Chair, National Endowment for the Humanities Chair, Federal Council on Arts and Humanities Gold Medal (Phi Beta Kappa)
Boorstin, Daniel	American History	Distinguished Professor of American History, University of Chicago Librarian of Congress Chair of American History, Sorbonne Presidential Task Force of Arts and Humanities Pulitzer Prize; Dexter Prize; Bancroft Prize; Frances Parkman Prize Honorary degrees (18)
Commanger, Henry Steele	American History	Bullitt Professor, University of Washington Gold Medal, American Academy of Arts and Letters Herbert B. Adams Prize (AHA) Honorary degrees (45)
Galbraith, John Kenneth	Economics	Paul M. Warburg Professor, Harvard University Fellow, Social Science Research Council Fellow, Academy of Arts and Sciences President, American Economic Association Ambassador to India
Hayakawa, S. I.	Semantics	President, San Francisco State College U.S. Senator Honorary degrees (4)
Heilbroner, Robert	Economics	Norman Thomas Professor, New School for Social Research
Horney, Karen	Psychoanalysis	Dean, American Institute for Psychoanalysis
Krutch, Joseph Wood	Literature	National Book Award Editor, *The Nation* Founder, The Literary Guild of America Honorary degrees (4)
Lasch, Christopher	History	Watson Professor, University of Rochester
MacBride, Sean	Law, Politics	Chair, UNESCO, Communications Problems Nobel Peace Prize Lenin Peace Prize American Medal of Justice
McLuhan, Marshall	Literature	Albert Schweitzer Professor of Humanities, Fordham University Chairman, Ford Foundation, Culture and Communications Governor General Award (Canada) Honorary degrees (9)
Mead, Margaret	Anthropology	Curator Emeritus, American Museum of Natural History Numerous awards and prizes Honorary degrees (12)
Potter, David	History	Coe Professor of American History, Stanford University President, American Historical Association President, Organization of American Historians Pulitzer Prize
Silber, John Robert	Philosophy	Wilbur Lucas Cross Medal, Yale University Executive Board, National Humanities Institute President, Boston University

*As of 1984. All have terminal academic degrees, and those still active continue to accumulate distinctions. Sources: *American Men and Women of Science; Social and Behavioral Sciences; Contemporary Authors; Directory of American Scholars; International Who's Who; National Cyclopedia of American Biography; Who's Who in America.*

What Are They Saying About Advertising?

It is difficult to summarize the overall critique of advertising's social role without occasionally simplifying the arguments of the original authors. Further, while this summary requires a broad examination of proposed consequences, it should be clear that every author would not fully subscribe to each effect. Also, the relative importance of some issues may have changed. These caveats notwithstanding, the current nonbusiness scholarly views about advertising's role in society are synthesized in Figure 2. It need not be repeated here, beyond a summary provided by UNESCO:

> Regarded as a form of communication, it (advertising) has been criticized for playing on emotions, simplifying real human situations into stereotypes, exploiting anxieties, and employing techniques of intensive persuasion that amount to manipulation. Many social critics have stated that advertising is essentially concerned with exalting the materialistic virtues of consumption by exploiting achievement drives and emulative anxieties, employing tactics of hidden manipulation, playing on emotions, maximizing appeal and minimizing information, trivializing, eliminating objective considerations, contriving illogical situations, and generally reducing men, women, and children to the role of irrational consumer. Criticism expressed in such a way may be overstated but it cannot be entirely brushed aside (MacBride 1980, p. 154).

These allegations are not very different in character from the listing of unintended consequences of advertising in a major review of advertising's effects on children (National Science Foundation 1978, pp. 145–146). This report listed, among others, the "possible outcomes" of encouragement of unsafe behavior, confused assessment of products, encouragement of inappropriate standards for choice, promotion of parent-child conflict, modeling of hazardous behavior (especially malnutrition and drug abuse), and reinforcement of sex role stereotypes, cynicism, and selfishness. The only positive effect suggested was the development of consumer skills, but this tautologically presumes the desirability of socializing citizens as consumers.

The review of the evidence and arguments submitted to the FTC (Howard and Hulbert 1973) say very little in response to these charges. Despite the volume of submissions reviewed, some 105 pages of annotated bibliography, the report looked only at influences directly related to buying behavior. Submissions pertaining to broader social effects were systematically excluded, even though these effects were held to be "of obvious importance." The criterion of importance, however, gave way to the criteria of manageability and measurability, a reflection of the prevailing scientific bias. But clearly it is not acceptable for our entire discipline to avoid addressing questions merely because certain constructs are difficult to measure. Many of the most important aspects of life elude simple measurement. Indeed, measurability may be highly correlated with triviality.

Discussion of the broader social impact of advertising certainly continues with some vigor in allied disciplines. In order to flesh out the arguments outlined in Figure 2 and to more faithfully capture the tone of the original works, excerpts will be extensively used. The positions advocated by those cited do not necessarily represent the opinion of the author, other academics, or the marketing profession generally. It is, however, the prevailing opinion in wider circles having no vested interest in advertising.

The Subtleties of Seduction

Advertising is seen as having profound consequences, despite the fact that its intent is clearly the pedestrian one of effecting sales, and despite the fact that many of the forms of advertising are transparent in intent to even quite unsophisticated subjects. The intent of advertising, especially in the aggregate, is to preoccupy society with material concerns, seeing commercially available goods or services as the path to happiness and the solution to virtually all problems and needs. In so doing, advertising makes consumption a top-of-mind behavior. This state of mind seems natural or rational because this persuasion also provides a world view with a value scheme that rationalizes such behavior and presents itself as commonplace. Commercial persuasion appears to program not only our shopping and product use behavior but also the larger domain of our social roles, language, goals, values, and the sources of meaning in our culture.

The potential for advertising to penetrate our consciousness and channel our very modes of thinking is seen as highly likely, if not for individual ads, then at least for advertising in the aggregate. Several reasons are offered to explain advertising's effect: It is (1) pervasive, appearing in many modes and media; (2) repetitive, reinforcing the same or similar ideas relentlessly; (3) professionally developed, with all of the attendant research sophistications to improve the probabilities of attention, comprehension, retention, and/or behavioral impact; and (4) delivered to an audience that is increasingly detached from traditional sources of cultural influence like families, churches, or schools.

It is further argued that the more profound impacts of an intensely commercialized culture may be readily underestimated because, viewing the culture from within, we cannot see the forest for the trees. As McLuhan and Fiore (1967) noted, "Environments are invisible. Their ground rules, pervasive structure, and overall patterns elude easy perception." In addition,

FIGURE 2
Reflections on "The Distorted Mirror"

I. BECAUSE ADVERTISING WORKS:	IT IS A PROCESS OF:	
A. To persuade and introduce	A. Change for cognitions, attitudes, behaviors, and values	
B. Within a cultural context	B. Selective reinforcement of those styles, roles, and values —readily commercialized —easily linked to products —dramatically visualized —reliably responded to	
II. BECAUSE ADVERTISING IS CHARACTERISTICALLY:	**ITS PRESUMED UNINTENDED EFFECTS ARE:**	**REPRESENTATIVE AUTHORS***
A. Pervasive and persuasive —in proliferated media —penetrating everyday life —relentless over time —professionally executed	A.1 Profound —social, political, cultural —moral and spiritual —not just personal, practical	A.1 Bell Berman Potter Toronto School of Theology
	A.2 Environmental —hard to detect and measure —impossible to avoid —affecting all (despite myth of personal immunity)	A.2 Barnouw Kuhns McLuhan
	A.3 Intrusive and dominating —setting agenda and goals —specifying alternatives —specifying criteria for choice —prompting passivity, "copy-shock"	A.3 Commanger Hayakawa McLuhan Schiller
B. Promoting of goods (objects)	B. Materialistic —belief that consumption is the route to happiness, meaning, and the solution to most personal problems —reification; displacement of feeling from people to objects —displacing spiritual development with secular hedonism —distorted political priorities; private goods vs. public goods; gross economic goals vs. justice, peace, etc. —ecological wastefulness and damage	B. Fromm Galbraith Krutch Leiss Skolimowski
C. Advocative .1—incomplete information, half truths, or careful deceptions	C.1 Cynical —distrust of authority —anomie; disbelief of received cultural wisdom and norms	C.1 Heilbroner Henry Skornia
.2—insistent, exhortative, emphatic	C.2 Irrational —hypnoid, neurotic compulsiveness to consume —indulgence vs. deferral of gratification —shortsighted here and now attitudes, with reduced perceived responsibility for consequences	C.2 Fromm McLuhan Schiller Skolimowski
D. Appealing to the individual	D. Greedy and selfish —loss of community ethic, cooperation, charity, and compassion	D. Berman Lasch Toronto School of Theology

FIGURE 2 (continued)

II. BECAUSE ADVERTISING IS CHARACTERISTICALLY:	ITS PRESUMED UNINTENDED EFFECTS ARE:	REPRESENTATIVE AUTHORS*
E. Easily understandable, using:		
.1 modal characterizations	E.1 Reinforcing social stereotypes —dehumanizing interpersonal relations —encouraging simplistic social analyses —aggravating sexism, racism, ageism, etc.	E.1 Commanger Fromm Mannes
.2 strong symbols, poetry	E.2 Trivializing of language —debasing currency of community and communion —degrading spiritual symbols, e.g., secularizing of Christmas —thinning of experience	E.2 Boorstin Hayakawa Heilbroner Nouwen
F. Idealizing "the good life"	F. Perpetually dissatisfying —economic treadmill, rat race —loss of self-esteem, self-respect —inadequacy, marginality, powerlessness —frustration, displacement, and criminality	F. Horney Lasch Mead Myers
III. AND WHEN ADVERTISING EMPLOYS APPEALS TO:	**IT ALSO PROMOTES:**	
A. Mass markets	A. Conformity	A. Baran and Sweezy McLuhan
B. Status	B. Social competitiveness, envy, false pride	B. Barnouw Krutch
C. Fears	C. Anxieties, insecurities	C. Lasch Mannes
D. Newness	D. Disrespect for experience, tradition, and history	D. Leiss Real
E. Youth	E. Reduced family authority, disrespect for age	E. Fisher Mannes
F. Sexuality	F. Sexual preoccupations and dissatisfaction, pornography	F. Kuhns Slater

*This classification is suggestive only of those apparently influential and ignores many others. Most authors offer comprehensive commentary beyond indicated themes. While this identifies starting points, serious scholars should read broadly.

we like to think of ourselves as personally immune to advertising's inducements. This is clearly a delusion for some or perhaps many or even most of the public. This myth of personal immunity gets generalized into an attitude that advertising is of little import to anyone, a view that seems roughly consistent with the obvious banalities of some advertising. Advertising operates successfully despite the cynics, virtually all of whom feel sufficiently sophisticated so as to be immune.

> The creators of advertising can claim that no one takes it all very seriously; it is all more or less in fun. The viewer can adopt a similar attitude. The viewer's self-respect requires a rejection of most commercials on the conscious level, along with some ridicule. Beneath the ridicule the commercial does its work (Barnouw 1978, p. 83).

The myth of immunity from persuasion may do more to protect self-respect than accurately comprehend the subtleties and implications of influence.

> . . . advertising begins to play a more subtle role in changing habits than merely stimulating wants. . . . Though at first the changes were primarily in manners, dress, taste, and food habits, sooner or later they began to affect more basic patterns: the structure of authority in the family, the role of children and young adults as independent consumers in the soci-

> ety, the pattern of morals, and the different meanings of achievement in the society (Bell 1976, p. 69).

This cultural role of advertising may have profound, pervasive dimensions, and while this might be overestimated, it is more commonly underestimated. As Galbraith (1967) noted, it is hard for solemn social scientists to take seriously anything so patently self-serving as commercials. But as Daniel Boorstin notes, the attitude of critical but callous disregard by some scholars limits their perception of the often very fundamental impact of advertising in providing us with the concepts and criteria with which we view our experience.

> Our frenetic earnestness to attack advertising, our fear of advertising, and our inability to fit advertising into old-time familiar cubbyholes of our experience—all these prevent us from seeing its all-encompassing significance as a touchstone of our changing concept of knowledge and of reality (Boorstin 1962, p. 211).

> Advertising utilizes both modes effectively—the informational and the mythic—as a socializing agent structuring assumptions, feelings, attitudes, and beliefs in the internal consciousness of contemporary individuals. . . . As a system, advertising cumulatively conveys an integrated value structure determining individual and group living (Real 1977, p. 29).

It is ironic that it is advertising's very omnipresence that contributes to its being taken for granted. Like all environments, its impact may be profound—certainly beyond the obvious.

> To think that the effects of advertising, such a potent environment in any industrialized country, could be limited to economics, is as absurd as assuming that the effects of a hot climate upon a culture could be limited to tropical diseases (Kuhns 1970).

Giving symbolic significance to prosaic products is what anthropologists describe as the magic of ritual. In this sense, ads are rituals, incantations to make inert objects meaningful, to convert products into "goods" and, occasionally, to convert the needs into "taboos," elevating their social significance.

> . . . we see advertising actually creating and naming taboos. The most famous, B.O. and Halitosis, are archaeological specimens from an age which we might fix as either Late Iron Tonic or Early Soap. . . . Bad breath and body odor have always existed, of course, but as individual matters. To transfer them from personal idiosyncrasies into tribal taboos is a magicianly trick indeed (Gossage 1967, p. 366).

> . . . it is clear that we have a cultural pattern in which the objects are not enough but must be validated, if only in fantasy, by association with social and personal meanings which in a different cultural pattern might be more directly available. The short description of the pattern we have is magic: a highly organized and professional system of magical inducements and satisfactions, functionally very similar to magical systems in simpler societies, but rather strangely coexistent with a highly developed scientific technology (Williams 1960, p. 27).

Advertising has influence in part because it normally addresses many of life's common issues, while other institutions seem to fade in relevance.

> The institutions of family, religion, and education have grown noticeably weaker over each of the past three generations. The world itself seems to have grown more complex. In the absence of traditional authority, advertising has become a kind of social guide. It depicts us in all the myriad situations possible to a life of free choice. It provides ideas about style, morality, behavior (Berman 1981, p. 13).

> It reiterates the essential problems of life—good and evil, life and death, happiness and misery, etc.—and simultaneously solves them. To the constant anxieties of life, advertising gives a simple answer. In consuming certain products, one buys not only a "thing" but also an image, an image which invokes the belief and the hope of having the good rather than the bad, happiness rather than misery, success rather than failure, life rather than death. And the more anxious, confused, uncertain, and bewildered modern society gets, the stronger will be the role played by advertising (Leymore 1975, p. x).

Since its impact on culture may be penetrating, we need to question the selective influence pattern of ads.

> . . . I don't think the advertisers have any real idea of their power not only to reflect but to mold society. . . . And if you reflect us incorrectly, as I believe you are doing, you are raising a generation of children with cockeyed values as to what men and women and life and family really are. You may be training them as consumers, but you are certainly not educating them as people (Mannes 1964, p. 32).

Consequences of Commercialism

Given the position that advertising, a propaganda for products, might have penetrating consequences, much of the discussion attempts to identify just what these consequences might be. Many authors, including the UNESCO Commission concerned with advertising's impact in the Third World, readily admit that some of these consequences are potentially beneficial, such as facilitating marketplace efficiencies and helping media to be autonomous from politics, even if not autonomous from commerce. But when considering the impact on the cultural character or the modal personality, it is less clear to most observers that the effects of a highly commercialized culture are beneficial. There is no reason to presume a virtuous cultural impact, critics argue, because the institutions of advertising are inherently amoral, serving their self-interests and with no ennobling social purpose. Just as it seems unwise to assume that advertising has no long-term effects whatsoever, the UNESCO report holds that it would be unwise to assume that such effects are wholly beneficial (MacBride 1980, p. 154).

> Advertising undoubtedly has positive features. It is used to promote desirable social aims, like savings and investment, family planning, purchases of fertilizer to improve agricultural output, etc. It provides the consumer with information about possible pat-

> terms of expenditure . . . and equips him to make choices; this could not be done, or would be done in a much more limited way, without advertising. Finally, since the advertising revenue of a newspaper or a broadcaster comes from multiple sources, it fosters economic health and independence, enabling the enterprise to defy pressure from any single economic interest or from political authorities (ibid, p.110).

At the least, advertising is seen as inducing us to keep working in order to be able to keep spending, keeping us on a treadmill, chasing new and improved carrots with no less vigor, even though our basic needs may be well met. This impact was manifest in an unusual personal admission by a famous Yale psychologist (Dollard 1960, p. 307) that "advertising makes me miserable" by an intensified pursuit of goals that would not have been imagined save for advertising. Thus, advertising's most fundamental impact may be that it induces people to keep productive in order to keep consuming, to work in order to buy.

> Advertising and its related arts thus help develop the kind of man the goals of the industrial system require—one that reliably spends his income and works reliably because he is always in need of more. . . . In the absence of the massive and artful persuasion that accompanies the management of demand, increasing abundance might well have reduced the interest of people in acquiring more goods. . . . Being not pressed by the need for these things, they would have spent less reliably of their income and worked less reliably to get more. The consequence—a lower and less reliable propensity to consume—would have been awkward for the industrial system (Galbraith 1967, p. 219).

This maintenance of our propensity to consume is accomplished, in part, by channeling our psychological needs and ambitions into consumption behaviors by romanticizing goods. But this romantic attitude toward objects is seen as having serious side effects for our personalities; a social effect of displacing affect from people to objects and an alienating effect where the self is perceived not as a child of God or as an element in community, but as an exchange commodity. Whatever advertising's economic contributions, these do not invalidate concern for its influence on our personalities and values.

> For material things cannot in themselves achieve anything. They count only where there is a will to use them, and whether they count for weal or woe depends upon the way that they are used. What is, in the end, of decisive importance are the intangible factors that we call character: . . . the ideals that are held up to children and the pattern of conduct that is fixed for them, the moral standards that are accepted and the moral values that are cherished (Commanger 1947, p. vii).

There is a reluctance to simply presume innocence of influence on our character. This is rooted in a view of advertising as inherently amoral, acting only for its own ends and without more ennobling goals. A late Stanford historian, highly influential in his discipline, expressed it as follows:

> . . . though it wields an immense social influence, comparable to the influence of religion and learning, it has no social goals and no social responsibility for what it does with its influence, so long as it refrains from palpable violations of truth and decency. It is this lack of institutional responsibility, this lack of inherent social purpose to balance social power, which, I would argue, is a basic cause for concern about the role of advertising (Potter 1954, p. 177).

A simple materialistic orientation without compensating values is seen as problematic, for a romantic attitude toward goods comes at some cost. As most thoroughly discussed by Leiss (1976), the transfer of feeling toward goods and away from people, the reification of abstract meaning into objects, and the simultaneous objectification of personal relations, are manifestations of this materialism.

> I should like to suggest that perhaps a transfer of attitudes through the change of the semantic environment has taken place. Previously, highly emotional expressions were applied to human beings. Nowadays, they are constantly and massively applied by the admen to objects. . . . It is quite natural that when we become more and more emotionally involved with objects, we tend to be less and less involved with people. . . . In love, in friendship, and in the multitude of other human relations, detachment, lack of interest, and coldness seem to prevail. Human beings are treated like objects (Skolimowski 1977, p. 97).

The objectification of self has been explicitly described in personality theory as a "marketing orientation," where a person is mannered for mercenary motivations and has a detached view of self as a commodity.

> In this orientation, man experiences himself as a thing to be employed successfully on the market. He does not experience himself as an active agent, as the bearer of human powers. He is alienated from these powers. His aim is to sell himself successfully on the market. . . . His body, his mind, and his soul are his capital, and his task in life is to invest it favorably, to make a profit of himself. Human qualities like friendliness, courtesy, kindness, are transformed into commodities, into assets of the "personality package," conducive to a higher price on the personality market (Fromm 1955, pp. 140, 142).

Intrusion and Irrationality

Advertising is designed to be intrusive. Indeed, intrusiveness is one of the concepts currently in vogue in pre-testing the effectiveness of television commercials. This successful commanding of attention makes the attempt to concentrate on the remaining content of media "like trying to do your algebra homework in Times Square on New Year's Eve" (Hayakawa 1964, p. 265). Such intrusion, first into our consciousness and then into our inner voices, distracts us from the serenity of solitude and thereby inhibits self-aware-

ness. Preoccupied with commercial blandishments, what passes for common culture in our affluent society are sets of jingles, slogans, and selling phrases which are perhaps more uniformly known than any other creed, ideology, or set of myths.

The repetitive, fantastic, one-sided, and often exhortative rhetorical styles of advertising combine, it is felt, to blur the distinction between reality and fantasy, producing hypnoid states of uncritical consciousness wherein the subject is reduced to passivity and a relative sense of powerlessness. Being inundated with propaganda for products, only "an exceptional degree of awareness and an especial heroism of effort" can free the individual from becoming the "supine consumer of processed goods" (McLuhan 1951, p. 211). In this view, such autonomous awareness is unlikely, not only because of the monopolizing presence of commercial coercions but because their character is "anti-rational" or precipitates irrationalities. Thus, intellectual submission seems almost inescapable, given the omnipresence of advertising and the success with which its ideas, phrases, and melodies are implanted in our minds.

> And so we are denied chances to discover the value of silence and nothingness, an environment conducive to contemplation. Advertising has taken quiet away from us, has made the choice impossible. Our minds become jammed with bits and pieces of jingles, buzz words, products, ad images, brand names, and slogans so there is no room for meditation and little room for self-confrontation (Schrank 1977, p. 90).

The one-sided rhetorical styles of advertising seem to inhibit rationality and common sense, as does the repetitive nature of claims and encouragements.

> The nature of any communication in which the actual information conveyed is less significant than the manner of its presentation is, to say the least, illogical. The illogical man is what advertising is after. This is why advertising is so anti-rational; this is why it aims at uprooting not only the rationality of man but his common sense (Skolimowski 1977, p. 95).

> We have become so groggy, so passive, so helpless amidst the endless barrage of appeals that "we go about our business," as we say. But the business of the advertiser is to see that we go about our business with some magic spell or tune or slogan throbbing quietly in the background of our minds. . . . Today our whole society is reeling from copy-writer's shock as much as any soldier ever felt battle-shock (McLuhan 1953, p. 557).

> A vast sector of modern advertising . . . does not appeal to reason but to emotion; like any other kind of hypnoid suggestion, it tries to impress its objects emotionally and then make them submit intellectually. This type of advertising impresses the customer by all sorts of means: by repetition, . . . by the influence of an authoritative image, . . . by attracting the customer and at the same time weakening his critical abilities by the sex appeal of a pretty girl; . . . by terrorizing him with (a) threat; . . . or yet again by stimulating daydreams about a sudden change in one's whole course of life. All these methods are essentially irrational; they have nothing to do with the qualities of the merchandise, and they smother and kill the critical capacities of the customer like an opiate or outright hypnosis. They give him a certain satisfaction by their daydreaming qualities just as the movies do, but at the same time they increase his feeling of smallness and powerlessness (Fromm 1976, p. 110).

Mirroring and Modeling

Advertising models a pattern of behavior that is held out to be "the good life," with the props, of course, for sale, and this is shown to be the ideal for all to strive toward. Indeed, the lifestyles displayed are ideal from a consumption perspective, and they probably provide a fair portrayal of a materialist's hedonic conception of utopia or heaven. Such conceptions may be increasingly common and unquestioned. As Potter (1954) notes, the stimulation and rehearsal of materialistic drives and emulative anxieties inevitably involve processes of validation, sanctioning, and standardization of the drives as accepted criteria of social value.

But the behaviors displayed often appear less than ideal judged from other perspectives. To most observers, the image presented in the cultural mirror of advertising is not unambiguously worth imitating. Even if it were, imitation requires some effort, perhaps frustrating, and the prior acceptance of an unworthiness of one's own life experiences.

> Strictly considered, however, modern advertising seeks to promote not so much self-indulgence as self-doubt. It seeks to create needs, not to fulfill them; to generate new anxieties instead of allaying old ones. By surrounding the consumer with images of the good life, . . . the propaganda of commodities simultaneously makes him acutely unhappy with his lot. By fostering grandiose aspirations, it also fosters self-denigration and self-contempt (Lasch 1978, p. 180)

> It addresses itself to the spiritual desolation of modern life and proposes consumption as the cure. It not only promises to palliate all the old unhappiness to which flesh is heir; it creates or exacerbates new forms of unhappiness—personal insecurity, status anxiety, anxiety in parents. . . . Advertising institutionalizes envy and its attendant anxieties (ibid, p.73).

Whether or not people are very successful in pursuing the ideals offered, they may more easily suffer self-denigration and doubt. By constantly showing us that the grass seems greener elsewhere, we're led to look askance at our immediate environment and experience. We may not be sure where the action is, but we suspect it's almost always somewhere else.

This fear that advertising instills a sense of inadequacy has been particularly expressed with respect to women's self-concepts.

> Advertisers in general bear a large part of the responsibility for the deep feelings of inadequacy that drive women to psychiatrists, pills, or the bottle. You

> keep telling us over and over that if we could use that or have this or look like that, we would be forever desirable, forever happy. So we spend our time worrying over the grey streak or the extra pound or the dry skin instead of our minds, our hearts, and our fellow men (Mannes 1964, p. 31).

Women are not the only segment that feels stress when confronted by advertising imagery. The elderly, like other minorities not glamorized in advertising, have self-concepts threatened by the gospel of advertising.

> The exploitation of age, fear, and social acceptance are so closely interwoven that it is difficult to separate them for the purposes of examination. But exploited they are, ruthlessly and continually wearing away at this image we have of ourselves. Our society's values are being corrupted by advertising's insistence on the equation: Youth equals popularity, popularity equals success, success equals happiness (Fisher 1968, p. 117).

We are all potential victims of the invidious comparisons of reality to the world seen in advertising. Once convinced that the grass is greener elsewhere, one's own life pales in comparison and seems a life half-lived.

> So people do worry, feel inferior, inadequate, guilty. They sense that they live without living, that life runs through their hands like sand (Fromm 1955, p. 166).
>
> Advertising, using "ideal types," can lead the receiver to be dissatisfied with the realities of his everyday world—his wife, his friends, his job, even his life itself. Fantasies are a loaded gun. They *may* sweeten life and advance culture; they *may* also destroy life in a reckless pursuit of impossible accomplishments (Toronto School of Theology 1972, p. 22).

Simplistic, symbolic stereotypes, chosen for their clarity and conciseness, serve as poor models and inhibit sympathetic understanding of individual differences. This position has been articulated in detail regarding the portrayal of women, but the problem is universal, as ads can reinforce stereotypes for not just the sexes, but also for races, ages, occupations, family relations, etc. To the extent that these images are disrespectful or unworthy of emulation, they are socially divisive.

> Advertisers should be made much more sensitive to the fall-out from their ads (using strong stereotypes). . . . Such advertising is disseminating offensive and deleterious images which cannot be laughed off as mere harmless buffoonery (ibid, p.17).

Few would argue that advertising faithfully mirrors reality. What are the supposed consequences of confronting the imagery in the mirror of advertising? What strains are felt facing the distortions inherent in selective feedback? While some worry about mass persuasion creating conformity, more worry more about the nature of norms that we may be conforming to. One fear is that the advertising system will create the kind of consumer citizen it seems to assume or prefer.

> [These would be] insatiably desiring, infinitely plastic, totally passive, and always a little bit sleepy; unpredictably labile and disloyal (to products); basically wooly-minded (Henry 1963, p. 79).
>
> American society, as popular advertisements portrayed it, was a nightmare of fear and jealousy, gossip and slander, envy and ambition, greed and lust. . . . The typical American, as they pictured him, lived in a torment of anxiety and cupidity and regulated his conduct entirely by ulterior considerations. . . . To the advertisers nothing was sacred and nothing private; they levied impartially upon filial devotion, marriage, religion, health, and cleanliness. . . . Love, as they portrayed it, was purely competitive. . . . Friendship, too, was for sale . . . (Commanger 1950, pp. 416–417).

Social Change and Social Problems

The education to abundance by advertising has already, it is claimed, induced cultural change.

> Commercials have worked—with success—toward revision of many traditional tenets of our society. As we have seen, reverence for nature has been replaced by a determination to process it. Thrift has been replaced by the duty to buy. The work ethic has been replaced by the consumption ethic. . . . Modesty has been exorcised with help from the sexual sell. Restraint of ego has lost standing (Barnouw 1978, p. 98).

Ironically, commercials often romanticize the life being lost, just as museums encapsulate ways of life no longer possible.

> This background texture is often composed of traditional images of well-being drawn from social situations which have largely disappeared from everyday life: a slower pace of life, quiet and serenity, open space, and closeness to the natural environment (images of rural life); contributing to the happiness of loved ones (images of family life); attainment of goals set in accordance with personal rather than institutional demands (images of success in noninstitutional settings); a sense of familiarity and security in purchasing goods (images of craft skills); a concern for quality and good judgment (images of discerning tastes) (Leiss 1976, p. 89).

In most western cultures, families are nearly sacred and seen as the basic social unit. Yet, family composition and character are changing for many social reasons. Nowhere may interpersonal relations be more affected by advertising than in the home, as the roles of both women and children as consumers get expanded and redefined.

> The advertising industry thus encourages the pseudo-emancipation of women, flattering them with its insinuating reminder, "You've come a long way, baby," and disguising the freedom to consume as genuine autonomy. Similarly it flatters and glorifies youth in the hope of elevating young people to the status of full-fledged consumers in their own right (Lasch 1978, p. 74).
>
> If advertising has invaded the judgment of children, it has also forced its way into the family, an insolent usurper of parental function, degrading parents to mere intermediaries between their children and the market.

> This indeed is a social revolution in our time! (Henry 1963, p. 76).

Relations with neighbors, the proverbial Joneses we strive to keep up with, are increasingly based on envy, emulation, and competition (Krutch 1959, p. 34). But social competition can turn asocial and precipitate violence and theft.

> Two processes could be involved in this type of response. First, the inaccessibility of the products being offered may create in some viewers feelings of frustration sufficient to make them engage in antisocial acts. Second, the arousal process associated with the ad itself may have behavioral consequences about which very little is known. Much advertising is designed to gain attention and build positive attitudes to brands essentially by a tension-arousal and tension-reduction process. . . . If, for a number of reasons, frustration is an outcome of such a process, it is possible . . . that aggressive acts of one kind or another may follow (Myers 1978, p. 176).

Other social problems that have been linked to advertising are those of ecology and pornography. Since there is rarely consumption without waste and unintended by-products, promotion of consumption also promotes pollution.

> The squandering of resources only begins the problem. The consumption binge which television has done so much to push has been fouling air, water, roads, streets, fields, and forests—a trend we failed or declined to recognize until almost irreversible. It has given us garbage statistics as staggering as our consumption statistics, and closely related to them (Barnouw 1978, p. 156).

Advertising, for almost as long as it has existed, has used some sort of sexual sell, sometimes promising seductive capacities, sometimes more simply attracting our attention with sexual stimuli, even if irrelevant to the product or the selling point. This provocation, while less graphic than more extreme pornography, is far more public in exposure. The difficulty seems to be that these sexual stimuli are frequent, very hard to avoid, and employed for a broad range of products. This makes them inevitably offensive to some and potentially jading. To all, advertising is more of a tease than a whore, for sexual stimulation is moderated and channeled. As Slater (1970) discusses, a modest arousal commands our attention and can be harnessed for instrumental purposes, while too strong an arousal might not. For at least some of the public, however, sexual ads represent a challenge to standards of decency and are in a real sense pornographic. Not everyone enjoys confronting near nudes on their streets' billboards or seeing things that flaunt conventional propriety on their living room TV. Certainly conventions of intimacy are frequently violated. Barnouw (1978, p. 98) notes as an example that we now see women caressing their bodies in showers with a frequency and reverence of attention that makes "self-love a consecrated ritual." This would have been unheard of only a few years ago. So too with the TV selling of women's sanitary products. Standards of public decency have changed much in the twentieth century, and advertising has been one of the elements contributing to changed norms.

It is also argued that our capacities for political responsiveness to social problems like these may be reduced by virtue of living in a commercial culture, as consumers grow indifferent to either communications generally or the plight of others in their communities.

> Exhortations to buy assail everyone from every possible direction. Subways, highways, the airwaves, the mail, and the sky itself (sky-writing) are vehicles for advertising's unrelenting offensives. The total indifference with which advertising treats any political or social event, insisting on intruding no matter what else is being presented, reduces all social phenomena to bizarre and meaningless happenings. . . . the result is individual passivity, a state of inertia that precludes action (Schiller 1973, p. 25).

Encouraged in our inclination to self-centeredness, our personal political priorities seem to reflect private economic goals with diminished counterbalancing social consciences. Our collective political priorities shift to economic goals more exclusively, despite our lip service that doing so is simplistic. We tolerate higher and higher levels of unemployment and welfare needs as long as sales and profits are maintained by aggregate consumer demand. We maximize GNP, with little concern for economic justice.

> Every feature and facet of every product having been studied for selling points, these are then described with talent, gravity, and an aspect of profound concern as the source of health, happiness, social achievement, or improved community standing. Even minor qualities of unimportant commodities are enlarged upon with solemnity which would not be unbecoming in an announcement of the combined return of Christ and all the apostles. . . . The consequence is that while goods become ever more abundant, they do not seem to be any less important. On the contrary, it requires an act of will to imagine that anything else is so important. Morally, we agree that the supply of goods is not a measure of human achievement; in fact, we take for granted that it will be so regarded (Galbraith 1967, p. 219).

Of course, if propaganda for products is a concern to the cultures within which it has gradually evolved, it is even more threatening as a cultural intervention in economically less developed societies.

> Advertising is seen by many as a threat to the cultural identity and self-realization of many developing countries: it brings to many people alien ethical values; it may deviate consumer demands in developing countries to areas which can inhibit development priorities; it affects and can often deform ways of life and lifestyles (MacBride 1980, p. 111).

Credibility, Cynicism, and Community

Language is of vital cultural significance. The ability to trust in the validity of what is comprehended verbally is a cornerstone of one's mode of acting in the world—the ability to accumulate knowledge, build community, and establish a relationship with God. These are possible only with faith in words. Words can be poetry for everyone; the richness of language can, with inspiration, express our passions, politics, praise, and prayers.

Our language is potentially affected by advertising in two ways. Advertising provides us with vocabulary: a set of words and the concepts they express with which we structure our perceptions and judgments, defining in large measure how "reality" is conceived. All language does this. What advertising does is give some words and concepts greater emphasis. But it also affects the credibility of language, and so simultaneously cheapens its own currency.

> Poetic language is used so constantly and relentlessly for the purposes of salesmanship that it has become almost impossible to say anything with enthusiasm or joy or conviction without running into the danger of sounding as if you were selling something. . . .
>
> To repeat, advertising is a symbol-manipulating occupation. The symbols of fashion and elegance are used to glamorize clothing and cosmetics. The symbols of youthful gaiety sell soft drinks and candy bars. The symbols of adventure and sportsmanship are used to promote cigarettes and liquor. . . . Advertising is a tremendous creator and devourer of symbols. Even the symbols of patriotism are used for the purposes of salesmanship. . . . Not even the symbols of religion are off limits—Christmas and Easter are so strenuously exploited commercially that they almost lose their religious significance (Hayakawa 1964, pp. 268–269).

> Now we pay intellectual talent a high price to amplify ambiguities, distort thought, and bury reality. All languages are deductive systems with a vast truth-telling potential imbedded in vocabulary, syntax, and morphology, yet no language is so perfect that men may not use it for the opposite purpose. One of the discoveries of the twentieth century is the enormous variety of ways of compelling language to lie (Henry 1963, p. 91).

Because virtually all citizens seem to recognize this tendency of ad language to distort, advertising seems to turn us into a community of cynics, and we doubt advertisers, the media, and authority in all its forms. Thus, we may also distrust other received wisdoms from political authorities, community elders, religious leaders, and teachers of all kinds. As Heilbroner (1976, p. 113) wondered: "How strong, deep, or sustaining can be the values generated by a civilization that generates a ceaseless flow of half-truths and careful deceptions?"

> In fact, perhaps one of the most powerful effects of television has been to teach a national tolerance of falsehood, exaggeration, and distortion. Parents who ask their children to tell the truth must explain that of course a certain cereal will not transform them into great athletes, as the highly paid announcer says, nor will the drug mentioned really cure hemorroids, or cancer, or arthritis. The announcer is really lying. . . . Somehow the parent must explain that truth is to be expected of the child individually, but that a huge industry can be based on falsity, exaggeration, and distortion (Skornia 1965, p. 158).

Reisman, Glazier, and Denny (1950, p. 294) once asked: "Isn't it possible that advertising as a whole is a fantastic fraud, presenting an image of America taken seriously by no one?" It may be possible, despite industry attempts to attain credibility, but even frauds have serious consequences. The consequence of extreme cynicism, the rejection or doubt of all offered values, is the normlessness known as anomie. This faithless position trusts no one and no word. Without a reliance on words and a faith in truth, we lack the mortar for social cohesion. Without trustworthy communication, there is no communion, no community, only an aggregation of increasingly isolated individuals, alone in the mass.

> There was a time not too long ago without radios and televisions, . . . signs, bumper stickers, and the ever-present announcements indicating price increases or special sales. There was a time without the advertisements which now cover whole cities with words. . . . The result is that the main function of the word, communication, is no longer realized. The word no longer communicates, no longer fosters communion, no longer creates community, and therefore no longer gives life. The word no longer offers trustworthy ground on which people can meet each other and build society (Nouwen 1980, p. 22).

Ironically, the anomic isolation of the individual creates some needs that well-advertised goods might meet. Identification with society, or at least the appropriation of lifestyle roles therein, is easily affected. It requires only the wit to buy recognized brands with symbolic value. Today, such brands, badges providing identity, are proudly displayed on shoes and shirts, on pants and hats—from tip to toe, from fronts to backs.

> To use a brand of car, drink, smoke, or food that is nationally advertised gives a man the feeling that he belongs to something bigger than himself. He is part of a process or a culture that contains and nourishes him. And the irrational basis of the appeals made to him by the ads reinforces his sense of mystic communion (McLuhan 1953, p. 555).

Rites, Religion, and Morality

The criticism of advertising on moral grounds, seeing it often as a social force opposed to the values of religion, is not new. Indeed, such observations were probably more frequent and came from more varied sources at the turn of the century. The emergence of the more secular, urban, and mediated society stood in some contrast to the preceding gilded age. Here,

for example, is the thought on vulgar advertising by a copywriter/poet writing in a magazine of the old style, a literary journal for the "gentle reader."

> On the moral side, it is thoroughly false and harmful. It breeds vulgarity, hypnotizes the imagination and the will, fosters covetousness, envy, hatred, and underhand competition (Logan 1907, p. 333).

Spiritually based observations are probably less frequent in today's more secular society, but commentary is still very evident in major places, as witness those below by presidents of colleges, major theologians, schools of theology, etc. Their concerns have intensified because of two features of advertising in the postwar era. Seeing advertising promoting not only goods but a whole lifestyle and accompanying rationalizing attitudes, they see it as moral (or immoral) instruction that contains injunctions about how life should be led. Because they also witness this instruction being aimed and delivered to children, primarily through television, they see this secular conditioning as directly competitive with the instruction and ideals of religious teachings. Hence, they see the prideful self-interest of the commercial creed as impeding spiritual development. Faith in litanies such as, "Me, I'm the one. I deserve a break today! I'll go for the gusto, and taste the good life," is hardly conducive to reverence, humility, or grace.

It shouldn't surprise us that the temptations to which the flesh is heir are seen as problematic. Nor then should we be surprised when the persistent, emphatic presentation of these temptations is seen as seductive to the soul, the promising of immediate pleasures in lieu of the rewards of a spiritual life, which seem more remote, even if potentially far richer and enduring. "Love things above all else, learn to want more and more, waste rather than conserve, spend what you do not have" is a repugnant injunction, but, as Krutch (1959, p. 37) notes, it is repugnant in part because we realize just how vulnerable we are to responding to it.

We are called in this way at an early age. Our commercial education begins early with jingles, slogans, and catch phrases, the total commercial catechism, so that children learn the "rite words in rote order."

> The slogans, catchwords, values, mottoes, and other lessons tattooed on young minds even before young people learn to read are not educational but commercial. They displace, contradict, and cancel, in many cases, in advance, those lessons and values which education seeks and will seek at public expense to teach and inculcate (Skornia 1965, p. 158).

Advertising commonly employs direct exhortations, literally a series of commandments, a secular litany that Barzun (1946, p. 53) identified as the "revealed religion of the twentieth century."

> (This is) usurpation of moral instruction by cynical television advertisers. . . . Schlitz, a firm with license to brew but none to preach, intones, "You only go around once in life; therefore, get all the gusto you can!" These are not statements about beer, but a theological claim and moral injunction (Silber 1982, p. 203).

Much of modern advertising offers a display of lifestyle attitudes as its focal point, so this is one of several possible examples of such exhortation toward unconflicted self-indulgence. Of course, the temptations are rarely presented in a way that would make their moral character too obvious.

> Lust, sloth, greed and pride. . . . In the advertising community these words are frowned upon. They have a bad connotation, so they must be changed. Lust becomes the desire to be sexually attractive. Certainly no one can complain if a woman desires to be sexually attractive; it is her birthright. Sloth becomes the desire for leisure—for rest and recreation—and certainly all of us are entitled to that. Greed becomes the desire to enjoy the good things of this world. Why were they put here if not for us to enjoy? Pride, of course, becomes the desire for social status (Mayer 1961, p. 128).

The common use of these four of the seven deadly sins makes the effective morality of materialism, the gospel of goods, suspect in the eyes of those faithful to almost any spiritual creed. The Christian perspective on materialism has its roots in Biblical warnings about the spiritual bankruptcy of self-indulgence, and the socially corruptive consequences of its practice.

> Self-indulgence is the opposite of the Spirit. . . . When self-indulgence is at work, the results are obvious: fornication, gross indecency, and sexual irresponsibility; idolatry and sorcery; feuds and wrangling, jealousy, bad temper, and quarrels; disagreements, factions, envy; drunkenness, orgies, and similar things. . . . What the Spirit brings is very different: love, joy, peace, patience, kindness, goodness, trustfulness, gentleness, and self-control . . . if he sows in the field of self-indulgence, he will get a harvest of corruption (Gal. 5: 17–23; 6: 8).

Advertising also seems subversive of morality when judged from the perspective of a secular liberal humanism.

> If I were asked to name the deadliest subversive force within capitalism, the single greatest source of its waning morality—I would without hesitation name advertising. How else should one identify a force that debases language, drains thought, and undoes dignity? (Heilbroner 1981, p. 40)

What Research Is in Order?

It is not clear now how to separate cause and effect when discussing the relation between advertising and social character. Historians recognize the complexities of our evolution as a society and point out that our culture had materialistic leanings long before the emergence of modern advertising. As modern adver-

tising emerged around the turn of the century, many other aspects of society were also in flux—most notably urbanization, industrial expansion, geographic and status mobility, splintering of the extended family, increases in literacy and education, etc. See Boorstin (1973) for a particularly broad perspective, or any of several excellent treatments more focused on advertising by Fox (1984), Pope (1983), Potter (1954), or Schudson (1984).

None of the critics cited would argue that advertising alone is responsible for the conditions discussed, corrupting an otherwise innocent and perfect culture and precipitating a condition previously nonexistent. Even the neo-Marxist historian of advertising (Ewen 1976), in an otherwise flawed work, recognized this. Whatever their focus or theoretical bent, even the most critical historians would allow that there were many preconditions to the emergence of advertising and that advertising has evolved coincident with other social changes which make it impossible to determine causality unambiguously. Advertising is also clearly not alone in its attempts to influence our thinking and behavior.

Recognition of this historical complexity does not invalidate our concern about advertising's continuing cultural role. While we may not be able to untangle the historical fabric to trace the threads of influence, we can still question the extent to which today's advertising perpetuates and/or exacerbates the alleged effects. More rooted in the present, such research is less likely to dwell on recriminations and remorse and is more readily directed toward proactive policy.

The Need for Research

> If one can justifiably say that advertising has joined the charmed circle of institutions which fix the values and standards of society, . . . then it becomes necessary to consider with special care the extent and nature of its influence—how far it extends and in what way it makes itself felt (Potter 1954, p. 177).
>
> There is a real need for an independent, comprehensive, and systematic comparative enquiry into advertising in all its many aspects. Such an enquiry, which is long overdue, should ascertain both the direct and indirect, the intended and the unintended effects, and should provide the base for decisions that are found to be required and any new policies that may result from them (MacBride 1980, p. 155).

It is clearly appropriate for us to take these assertions about advertising's unintended consequences seriously. Despite the relative lack of data based research to date, despite the occasional naiveté of some authors with respect to the processes of strategy formation and advertising execution, and despite the challenge this indictment represents to our own vested interests and ideologies, the charges are much too serious to dismiss cavalierly. The convergence of thought among intellectual leaders of so many diverse disciplines demands our attention and research as allied academics.

These ideas also deserve consideration because of their sobering and substantial nature. Taken as a whole, they constitute a major indictment of advertising. It should be acknowledged, however, that while this indictment is the result of the reflective ruminations of senior, highly respected scholars, the conclusions are typically arrived at deductively. While their insights are sometimes self-evident and their rhetoric is often very persuasive, few of the alleged effects are directly observed, nor is the causal role of advertising certain. Thus, the ideas constitute the conventional wisdom of nonbusiness academics and are better thought of as hypotheses than conclusions.

Potential Research Approaches

It is all too easy to let suspicions or defensiveness preclude more definitive research on these hypotheses. Doing nothing, however, accepts ideology in lieu of academic inquiry and information. Polemic stands on all sides of this issue are potentially tempered by research findings, which should illuminate our understanding of both the institution of advertising and the character of its target, the consumer. But how many of the consequences are readily researched, especially with traditional consumer research methodologies? The traditional research methods of consumer behavior are drawn from psychology, and, to a far lesser degree, from other social science disciplines. Viewed from the perspective of psychology, the research agenda suggested by the views reported involves study of both the stimulus materials and the responses, i.e., the ads and the behaviors to which they might be causally linked.

Content analysis of systematically drawn samples of ads can provide insight into the nature of the stimuli. Such a sample could be measured for its value content (Pollay 1983), and these results correlated with the findings of Rokeach (1973) or others to test the idea that advertising replicates the value hierarchy of the population. Data on cultural change might be examined for movement toward reinforced values. Content analysis can also identify the relative frequencies of tactics in order to establish some measure of the relative import of the various concerns listed in Figure 2 and to establish subsequent research priorities (Pollay 1985). Behaviors most commonly role modeled and encouraged can also be identified and their frequencies observed. While this, of course, is not equivalent to researching behaviors that might actually result from the exhortations of advertising, it would nonetheless identify the patterning of behaviors attempted. Systematically selected advertising copy is excellent grist for the historian's mill, and there is no reason why it would not also prove valuable for con-

temporary studies by marketing scholars.

Traditional experiments can more directly test the questions of effects produced by examining the extent to which various types of advertising stimuli produce various kinds of responses. For example, we could verify the supposed tendencies of status appeals, fear appeals, or sexual sells to produce envy and social competitiveness, anxieties and insecurities, and sexual preoccupations and dissatisfactions, respectively. There is no shortage of measures for dependent variables, and treatments and experimental designs should be quite straightforward. Our experimental paradigms, however, look to short-term impacts of specific stimuli rather than the longer-term results of repeated treatments. Thus, while internal validity can be highly controlled, some issue of external validity will remain.

Experimental paradigms can also be used to examine the extent to which ads work to set agendas, chanelling behavior by specifying the "evoked set" of alternatives and providing the criteria employed to choose from that evoked set. Nutritionists, for example, worry that our response to thirst is increasingly imagery of packaged goods and that, as a consequence, the "market share" for water is declining. (One once suggested to me in jest that maybe we needed to package water and brand it in order to compete with drinks of sugar, alcohol, or caffeine, ironically presaging the bottled water successes of recent years.) Protocol measures, unaided recall, or other free response methods are probably the best tools for validating the general issue of agenda setting, but forced choice techniques could identify the perceived relative importance of criteria after exposure.

At first glance it might seem that survey methods and other cross-sectional descriptive data about the population, such as that used in segmentation studies, might be helpful. Unfortunately, while these might prove descriptive of the current status of the American character and, hence, be valuable as a base line for future measures of change, this sort of data is of limited value in addressing the issues of causality and social change. It often lacks historical reference points and contains weak evidence, if any, regarding attribution for any phenomena noticed. Even direct questions which ask individuals the "why" questions are likely to fall far short of the mark, for individuals are probably unable to specify the reasons for cultural evolution of attitudes, norms of behavior, or relative values. We know full well how much difficulty respondents have reconstructing the determinants of even an isolated major consumer purchase of recent occurrence.

Even more unfortunately, it would seem that our research paradigms are at quite a loss in dealing with fundamental questions in the macro market's evolution, only partially due to the hypotheses and their specification. Most of the variables in question are potentially measurable with existing or creative metric tools which social science has recently produced in such abundance. A less tractable problem is our inability to effectively research environmental issues from within the environment. No major longitudinal experiments are possible, as all individuals are already very heavily "treated." The few "unexposed" individuals are those with major differences on a wide variety of other significant dimensions—like those in total institutions, remote geographic locations, foreign cultures, primitive economies, or in some combination of these conditions. Hence, natural or quasi experiments aren't possible, as significant variation in advertising exposure isn't likely without naturally occurring covariation in other major variables, and it would seem quite difficult to sort the covariance in order to isolate relative determination.

But the shortcomings of our traditional techniques only suggest again that we need to broaden our concept of consumer behavior. Perhaps we should be drawing on a far broader base of research tools, employing techniques of historians, sociologists, anthropologists, or psycholinguists, and encouraging our students in these directions. It might also mean abandoning the academic concept of the consumer as a complex information processor, however dignified and morally reassuring that image. Instead of our current focus on short-term responses of individual consumers to specific configurations of stimuli, we need methods which deal with the long-term effects of aggregated stimuli. We need to supplement our focus on microphenomena with macro concerns, and our methods must expand accordingly.

Values and Research Objectivity

A common defense of advertising against criticisms of its cultural role is that it must, of necessity, be in harmony with its culture; messages must employ symbols and cultural values that are readily understood and accepted by the intended audience. In this view, advertising is seen as a mirror that only reflects and exposes existing cultural values and behaviors. It is argued from this perspective that to find fault with advertising is simply to display a cultural alienation. But this argument typically ignores several key points: (1) any culture is a mosaic of multiple values, (2) a culture is characterized in substantial measure by the relative importance of these values, and (3) not all cultural values are employed and echoed in advertising.

Not all values are equally suited for use in commercials. Some are more plausibly linked to the products in current production, some are more dramatically visualized, and some are more reliably responded

to by the consuming public. Thus, in the aggregate, some of our cultural values are reinforced far more frequently than others. Hence, while it may be true that advertising reflects cultural values, it does so on a very selective basis, echoing and reinforcing certain attitudes, behaviors, and values far more frequently than others. Thus, it becomes a serious research question, which values are subjected to this selective reinforcement and which suffer from neglect, however benign?

The possible distortion of the relative importance of various values may have far-reaching consequences. Most serious social decisions involve conflict between competing value premises, and it is the relative importance of the competing values that tips the balance and precipitates wholly different patterns of behavior and paths of history. Political processes, for example, are typically the weighing of the relative importance of a series of values, each one of which in isolation would be endorsed by virtually all citizens. But it is the balancing of these valued considerations (like democracy, prosperity, the sanctity of family life, religious freedom, civil rights, national security, etc.) that leads to critical decisions and separates the various political parties and policies. The same can be said for individuals and their balancing of values when confronted with nontrivial decisions and moral quandaries. Thus, identifying the value profile of advertising seems a research priority and is allowed by recent methodological developments (Pollay 1983, 1984).

Many contentions about advertising's impact and the defensive responses to them are inherently ideological in nature (Greyser 1972). Authors note critically those ways in which they feel advertising leads to deviations from their concept of an improved or ideal society, and this unavoidably involves value judgments. But having said as much, it is not adequate, as so often seems to be implied, therefore to disregard the allegations and to accept the conservative tautology that "what is, is good." While it may be difficult to conduct a value-free inquiry into the effects of advertising, in large measure because advertising is itself so value laden, such an inquiry should be attempted. When that inquiry reaches its limits of providing information and insight, its data and conclusions must then form the basis of a better informed judgment. In the end, however, both research and moral judgment seem necessary. The issues are too important to tolerate uninformed or amoral attitudes.

Greed, lust, sloth, and pride were identified earlier as common ad themes. One might also consider the extent to which advertising encourages envy and gluttony. If anger were added to this list, we would have what are popularly known as the seven deadly sins. We could do far worse in our research agenda, as in our moral reflections, than to consider the extent to which advertising fosters these, or, in balance, encourages the seven cardinal virtues of wisdom, justice, temperance, courage, faith, hope, and love. This criterion set at least transcends personal value preferences of different researchers.

A Last Call to Research

The need for this research, even at the risk of embarrassing discoveries, has been recognized by famous professionals, including a copywriter chief executive and an advertising researcher who is a frequent industry spokesman.

> Criticism is much more welcome, because much more helpful, than praise. Criticism stimulates the nerve ends; praise merely lards with cholesterol the mental arteries. . . . In my opinion, we in advertising should be more concerned with those in our profession, or outside it, who lack the interest to criticize, who lack the urge to improve (Weir 1963, pp. 179–180).

> We should be enlisting the support of cultural critics and historians, as well as psychiatrists, to study the influence of advertising on the fantasy life of the public, on its conscious aspirations and unconscious motives. We should be probing the symbolism evoked by the models and scenes depicted in advertising to see what impact they have had on the national character (Bogart 1969, p. 10).

Despite calls for this sort of research from professionals and despite nearly four decades of prodding from parallel social science paradigms, to date our discipline has produced shamefully little in response. Perhaps this reflects the immaturity of marketing and consumer behavior as autonomous academic disciplines. We have been quite preoccupied with either professional practicalities and/or mimicking the established sciences, afraid, it would seem, of alienating either constituency. Yet, this inhibition often precipitates the most pedestrian and pedantic of research, ignoring questions meaningful to the larger communities of scholars and citizens. Hopefully, as we mature into a more truly scholarly tradition, our scope and courage will enlarge.

This is entirely possible for individuals as their careers mature and as their concerns and perspective also mature. As the methodologies of the discipline evolve, it also becomes more feasible to undertake research with the promise of its being satisfying. The meaningfulness of the questions increases the satisfactions to the researcher, and improved methods make the research product more satisfying to others. While research on these topics is hardly simple, it is potentially significant.

Critical inquiry does not require researchers to believe that advertising will be absolved of all charges as much as it requires having faith that the institutions of advertising have some potential for self-correction and a capacity for moral action in the light of new

knowledge. Let us hope that marketing and advertising scholars have this faith and carry out the needed research. Let us also hope that such faith is well-founded.

Failure to initiate this research would suggest that academics are servants to marketing practice rather than scholars of it. Intellectual detachment suggests that we should study the consumer in the marketing environment as the biologist studies the fish. As suggested by Tucker (1974), all too often our perspective has been exclusively that of the fisherman.

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[3]

BEYOND VEBLEN: REMAPPING CONSUMER CULTURE IN TWENTIETH CENTURY AMERICA

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ABSTRACT

This paper surveys and evaluates the persistent influence of Thorstein Veblen as a critic and analyst of consumer culture, then discusses alternative critical strategies in the work of the semiologists Henri Lefebvre, Jean Baudrillard, and Judith Williamson, and the political scientist William Leiss. The author then outlines a comprehensive approach, which combines the rhetorical and iconographic analysis of advertisements, a detailed social history of particular marketing campaigns, and a multidimensional conception of the consumer.

THORSTEIN VEBLEN AND HIS LEGACY

Veblen's portrait, in the Faculty Lounge at Yale, shows him leaning back in his chair, one leg tossed easily over the other, smoking a cigarette. He is surveying the passing scene of academic pomp with just the hint of a twinkle in his eye. Despite his mythic marginality, he looks more bemused than embittered. And were he alive today, Veblen might be pardoned some ironic bemusement. The ideas of the celebrated iconoclast have become part of the conventional wisdom. Every two-bit pop sociologist knows about "conspicious consumption," and is willing to spout off about it whenever he sees another Buick Electra with leatherette roof and opera windows. Many serious analysts and critics of American culture have also clasped Veblen to their bosom: more than a few would agree with Max Lerner's assertion that "Veblen is the most creative mind American social thought has produced." (1948).

In many ways the reputation is deserved. Veblen broke a lot of new ground, much of which is still neglected. He was one of the first theorists to break away from the producer orientation of nineteenth century economics and focus on consumption as an important category of social and economic behavior. He rejected the utilitarian psychology of orthodox economic thought, demolished through caricature the Economic Man, and effectively focused on the irrationality and absurdity inherent in much consumer behavior. Because he had immersed himself in anthropological literature, Veblen could add a cultural dimension to Marx's famous dichotomy of use-value and exchange-value. Much of what passed for exchange value, he noted, was also a form of symbolic value. The orgies of display at Newport, the parading of ornamental wives on Fifth Avenue, were of a piece with similar ceremonies among "primitive" tribes. The captain of industry, like the Kwakiutl chieftain, was eager to demonstrate his prowess by showing off his trophies. But unlike many anthropologists of his own time or ours, Veblen preserved a keen sense of hierarchical social structure, and of how consumption patterns reinforced it. By remaining sensitive to the interaction between culture and power relations, Veblen succeeded where orthodox Marxism failed. He was able to see how subordinate groups could develop allegiances to a dominant consumer culture that may not have reflected their own best interests. He anticipated some of Antonio Gramsci's insights into the ways dominant groups exercise cultural hegemony under organized capitalism. (Veblen 1899, Diggins 1978).

Despite Veblen's achievements, though, his persistent influence has been a mixed blessing. This paper will try to chart and evaluate that influence, then explore some alternative strategies for understanding what we loosely term "consumer culture" in twentieth century America. Throughout, my focus will not be on marketing economics but on the cultural meanings attached to mass marketed goods by national brand-name advertising and its audience.

Veblen's mask of detachment concealed a deep-dyed moralism that energized but also narrowed his thought. He had much in common with Populists, artisans, and other devotees of a producer ethos in the late nineteenth century: a distrust of idleness and dependence (though Veblen himself exalted "idle curiosity" over all other motives to knowledge); a hatred of bankers, brokers, and other "parasites"; a horror of luxury and waste. Veblen grafted this nineteenth century republican moralism onto a twentieth century enthusiasm for technical efficiency and "the discipline of the machine." Like Edward Bellamy, Charlotte Perkins Gilman, and others among his contemporaries who took to calling themselves socialists, Veblen was sometimes imprisoned by the capitalist values he sought to transcend. He attacked capitalism not for its injustice but for its irrationality, for failing to live up to its own standards of efficiency and productivity. And he looked to a revolt of the engineers to set things right. (Veblen 1923, 1921).

We need not dwell on Veblen's naivete as a social prophet. Historians led by David Noble (1977) have demonstrated how thoroughly scientists and engineers subordinated the values of scientific inquiry to the demands of their corporate employers, beginning around the turn of the century. Other historians have identified the truly remarkable feature of the American upper class at the turn of the century: it refused to become a leisure class at all. Rich men stayed in harness, died at their desks, and reaffirmed their commitments to bourgeois productivity. Veblen was so outraged by what he took to be sybaritic leisure that he failed to see its function in cementing class solidarity (Lasch 1973, Lears 1981). These are serious drawbacks; but we are more concerned here with the effects of Veblen's technocratic world view on his analysis of consumer culture.

Veblen's moral commitments prevented him from realizing the near-universality of "conspicuous display" and "conspicuous consumption." Veblen himself habitually resorted to conspicuous display--in the guise of anti-display. His unkempt appearance and bizarre attire, his thick woolen stockings supported by pins clipped to his trouser legs--these aspects of costume contributed crucially to his legendary status as bohemian intellectual. Despite his anthropological perspective, he could not see consumption and display as patterns interwoven by different social groups throughout the whole fabric of a culture. He insisted on attributing the dominant consumption patterns to the pernicious influence of a parasitic "leisure class." Veblen's assumption that cultural influences flow only from the top down is not borne out by the historical record. Lois Banner's recent and comprehensive study of American fashion, for example, demonstrates that the pace-setters in the beauty sweepstakes were courtesans and chorus girls who were often aped by their social betters (1983). The history of leisure is littered with similar examples.

Veblen's top-down model of cultural domination combined with his desire to stress the irrationality of consumption. As a result, his psychology remained narrow. He was, to be sure, a step beyond the simpleminded utilitarianism of orthodox economics. But he still reduced complex social rituals to one-dimensional examples of "pecuniary emulation." Nothing--from a funeral to a

wedding to any form of "devout observance"--was allowed its true, multivalent significance. Veblen recognized that consumption embodied cultural meaning, but he was willing to assign it only one meaning: status-striving. Moreover: since nearly all cultural artifacts and practices embody elements of display, Veblen's furious assault on display amounted to an "attack on culture" itself--as Theodor Adorno recognized over forty years ago (1941). Veblen's polemical intent led him to a sweeping dismissal of art, religion, and nearly all sensuous or material cultural forms in the name of a utopian alternative: a rational state where sturdy producer-citizens would be ruled by the discipline of the machine rather than the irrationalities of consumption.

What is amazing is how often this bleak vision has continued to inspire critics of consumer culture, particularly on the left--and how often they have perpetuated Veblen's misconceptions. Even during the 1930s, for example, Stuart Chase and other popularizers of Veblen often seemed more preoccupied with eliminating waste than with ending injustice (1934, 1938). The same Veblenesque myopia has persisted among some consumer activists down to our own time. The implicit rationalism that led Veblen to sweep consumer "irrationality" into the dustbin of history has survived as well, not only among popularizers like Vance Packard but among critics as thoughtful and diverse as C. Wright Mills, Herbert Marcuse, and John Kenneth Galbraith (1957; 1951; 1964; 1958, 1967). It led Mills to dismiss the American consumer as a "cheerful robot", and Marcuse to stigmatize him as a "one-dimensional man." It led Galbraith to long for the displacement of a wasteful "affluent society" by a "new industrial state" under the direction of an intellectual mandarinate. On all of these critiques, Veblen cast a long shadow.

Not that the criticism was always mistaken. Much of it had a strong empirical base. It is possible to argue, on empirical grounds, that American comsumer culture in the twentieth century has promoted a maldistribution of wealth and power--both within our borders and internationally, that public services have languished while the private sector has produced a surfeit of frivolous goods, and that unexamined commitments to economic growth are creating disastrous, perhaps irreversible consequences for our environment. But problems arise when the argument shifts from empirical to metaphysical grounds.

The key metaphysical distinction is between true needs and false wants. It is an outgrowth of the Marxian distinction between use-value and exchange-value, as amended by Veblen. True needs are basic, authentic, deserving of respect; false wants are merely fabricated by the advertising industry--which plays the same role for Galbraith & Co. that the "leisure class" did for Veblen. Whether these critics speak of false consciousness or fabricated wants, they tend to see consumer culture as a tissue of lies told primarily by ad men. Part of the problem here is the demonizing of advertising. Without underestimating advertising's cultural significance, one can still acknowledge that admakers are no more able than any other cultural elite to create needs out of whole cloth. They may try to address and exploit existing needs; they may try to reinforce certain needs and ignore others; they may try to direct specific needs toward specific objects. None of this constitutes the creation of needs. (Schudson 1981).

None of these advertising efforts is guaranteed even to evoke the attention of the consumer--let alone his serious attention. Indeed there has been a kind of ironic game between the advertiser and his audience ever since the days of P.T. Barnum. Humor of all kinds: puzzles, puns, sly winks at other products and even at the advertiser's own product have all become part of advertising's stock-in-trade during the last hundred years. All this suggests the deeper

difficulty with the distinction between true and false needs, and that is its failure to take into account the messy details of human experience in any organized society. Here is Galbraith: "If the individual's wants are to be urgent they must be original with himself. They cannot be urgent if they must be contrived for him. And above all they must not be contrived by the process of production by which they are satisfied." (1958, p. 124). But it is highly questionable whether any individual's wants have ever been as pristinely "original with himself" as Galbraith wants to argue. Even Freud acknowledged toward the end of his career that the contents of the id--that roiling cauldron of biological urges--might be partially shaped by social determinants (Weinstein and Platt, 1973). All needs, even the most apparently "original" ones, are mediated by culture. Galbraith's dismissal of "contrived" needs reflects the same reductionist approach to culture that marred Veblen's work. One could apply Galbraith's dicta, for example, to the history of the Roman Catholic Church--an institution which promoted yearnings for salvation (just as advertising promotes desires for commodities), then offered to satisfy those needs with its own products: sacraments, rituals, indulgences. The whole operation could then be dismissed as a gigantic fraud. The comparison would have delighted the positivist Veblen, who loved to expose religion as a form of mass deception analagous to advertising; but it would not get us far in exploring the dense matrix of hopes and fears, anxieties and aspirations, that underlay Catholic culture. The same is true for the commodity culture of advanced capitalism: if one is determined to expose it as merely a stupendous hoax, then one will never understand it. One does not have to deny the hocus-pocus in both Catholicism and advertising to acknowledge that both have successfully addressed actual human needs and longings.

BEYOND VEBLEN, I: FROM CLARITY TO CONFUSION

The impossibility of separating true from false needs has led more sophisticated critics to recast the argument against consumer culture. They have acknowledged with Veblen that patterns of consumer behavior have symbolic meanings, but they have gone on to argue that those meanings have become muddled under advanced capitalism. This emphasis on the diffuseness of meaning in consumer culture appears in the work of the French sociologist Henri Lefebvre and his student Jean Baudrillard. Lefebvre's Everyday Life in the Modern World noted a sense of "loss of substance" in the "bureaucratic society of controlled consumption". The question was "where did the sense of substantiality of former ages come from?" Lefebvre believed it came from the insubstantiality of everyday life in the contemporary age, the dissolution of meaning in "the floating stock of meaningless signifiers." Advertising eroded the meaning of signifiers--words or images--by detaching them from traditional associations and coupling them arbitrarily with products for sale. From this view, the structuralist Saussure's separation of sign from referent in the early twentieth century was not an advance in science but a reflection of what Lefebvre called "the decline of referentials"--the tendency, under corporate capitalism, for words to become severed from any meaningful referent (Lefebvre 1971, pp. 110-123).

Baudrillard also stressed the erosion of meaning under consumer capitalism, arguing that unlike pre-capitalist symbols which were rooted in face-to-face communities and ancient traditions, capitalist signs were floating, detached, bearing little relation to the material object with which they were linked. Drinking Pepsi was alleged to bring membership in a generation; splashing on Brut cologne magically brought aggressive behavior; Ultra-Brite toothpaste created sex appeal. So in Baudrillard, too, we find an emphasis on the diffusion and evaporation of meaning in consumer culture (1970, 1981).

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The British sociologist Judith Williamson also focused part of her analysis on advertisements' devaluation of meaning. She noted that the impact of contemporary advertisements depended on their capacity to make use of "referent systems"--the constellations of values, attitudes, and perceptions evoked in the advertisement's audience by specific images. The devaluation of meaning occurred when the advertisement scooped the meaning out of the referent system and filled the hollowed form with signifiers designed to sell the product. Advertisements for stereo equipment, washing machines, and automobiles presented signifiers designed to evoke the referent-system of "Science"--clean surfaces, complex internal components, statistics, jargon, acronyms. "Everything was revealed, and nothing explained." Knowledge was replaced by knowingness. Similar devaluations of meaning occurred with referent-systems involving "the Natural," "the Past," or "History." In each case the content was hollowed out of the referent system and the product was inserted. To take one example: an ad for Coty tanning gel used the referent system of "the Natural," replacing the natural sun with a tube of fake tan. The whole ad played on the difference between the inconstant, unpredictable sun and the convenient, reliable tan-in-a-tube. Yet at the same time, this highly artificial product, by replacing the scooped-out sun in the referent system of "the natural," acquired connotations of "naturalness." Opposites merged and meaning was lost (1978, pp. 106-117).

The political theorist William Leiss gave this analysis a further turn. Like Baudrillard, Leiss asserted that consumers were no longer merely urged to buy commodities; they were persuaded to buy "clusters of atributes" that advertisers associated with those products. Yet those attributes had no relation to the actual use of the commodity. Automobiles, for example, were almost invariably associated with wilderness or ocean beach settings, with openness and escape, while over 90% of all automobile travel took place within the limits of major metropolitan areas. The problem was not that advertisers were "creating needs," as radical critics charged, but that they were creating confusion. What were consumer goods really for, anyway? And confusion only deepened as advertisers shuffled and reshuffled the clusters of attributes they assigned to various commodities, searching for the right combination that would increase sales and profits. Ever shifting fashion exalted novelty and devalued certainty (Leiss 1975, 1978; Leiss and Kline 1978).

Confusion, diffusion, floating signs, hollowed-out referents, banal images--the vocabulary differs but the emphases point to the same conclusion. All these authors would agree that the world created by advertisements gradually acquired an Alice-in-Wonderland quality. It became a nether realm between truth and falsehood, where visual and verbal signs become detached from specific associations and meaning in general was eroded. It was no wonder that, in the image empire of the consumer culture, day-to-day life began to seem curiously insubstantial, even unreal.

By focusing on this sense of unreality, these critics have identified a major motif in consumer culture, difficult to chart but impossible to ignore. For nearly a century, advertisements have been promising us "the real thing" amid a world of imitation and inauthenticity. But a problem lies in the claim that feelings of unreality resulted from national advertising. Here again advertising is given unwarranted causal force. The sources of the sense of unreality were much more complex. To oversimplify: feelings of unreality stemmed from late nineteenth century technological change, which insulated the urban bourgeoisie from danger and discomfort (Boorstin 1973, Lears 1981); they stemmed from the impact of market relations in urban settings, which created an impersonal status drama where social identities could be chosen and discarded

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and the older rigid sense of "character" could slip away (Duncan 1965); and they stemmed from the loss of a sense of gravity provided by older religious traditions, as liberal Protestant beliefs evaporated into a platitudinous haze (Trilling 1973, Lears 1981). The new code embodied in national advertising may have exacerbated vague anxieties about unreality, but it also sought to soothe them by offering brand-name commodities as keys to authentic experience. And in this, too, advertising strategies paralleled other cultural developments at the turn of the century and since--particularly the work of liberal ministers and early therapists (Lears 1983). By our own time, intense, first, hand experience--the "real life" that has come to seem so elusive--has been associated with everything from cars to cosmetics to toothpaste. Here as elsewhere, the emergence of consumer culture must be understood within a complex network of economic, social, and psychological changes.

The deeper difficulty with these critics' stress on diffusion of meaning is that, having banished the antithesis between true and false needs, they tend to introduce a new dichotomy of clarity and confusion. The invidious distinction between use-value and exchange-value survives in a linguistic idiom. Whether clarity resides in a pre-capitalist Eden, or in the nineteenth century print culture before the coming of high-intensity image marketing, the critique seems to involve the assumption that there has been a fall from linguistic grace--that, once upon a time, people meant what they said and said what they meant. The notion that language is (or should be) utterly transparent reflects the rationalist bias of much cultural criticism on the left. Its quintessential expression is Jurgen Habermas's "ideal speech situation," and it survives even in the work of critics as sophisticated as Baudrillard and Leiss (Habermas 1979).

Still, one does not need to assume a pre-capitalist unity between word and thing to concede these critics' major charge. Even apologists like Daniel Boorstin have emphasized the corrosive effects of advertising on precise meaning, the tendency of advertisements' half-truths and vague claims to blur distinctions between truth and falsehood (1962). My point is not that critics should tolerate the nonsense generated by consumer culture, but that they should abandon lapsarian models and rationalist dualisms. We all need to recognize the extent to which culturally significant "conspicuous consumption" has been a constant in human affairs--as Leiss, Sut Jhally, and Stephen Kline have done in their most recent work on "goods as communicators" (1985). To quote from Fernand Braudel: "If luxury is not a good way of supporting or promoting an economy, it is a means of holding, of fascinating a society. Civilisations--strange collections of commodities, symbols, illusions, phantasms, and intellectual models--are built up in this way. An order becomes established that operates down to the very depths of material life" (1974, p. 243).

As that quotation suggests, and as critics like Leiss and Baudrillard remind us, in complex societies the process of communication through consumption is never straightforward or simple. And it can change dramatically over time. The chief error of anthropological approaches to consumption is that they assume clarity and timelessness. In their book The Work of Goods (1979) for example, Mary Douglas and Baron Isherwood remain stuck in the "ethnographic present," lumping Trobriand Islanders with supermarket shoppers, assuming that modern consumption patterns constitute the same sort of "information systems" as those employed by tribal societies.

We need approaches to consumer culture that embrace both the persistence of ancient patterns and the dramatic changes wrought by modern corporate

marketing. One can find nostrum peddlers in Ben Jonson's London as well as on Herbert Marcuse's television, promising the same magical transformations in the seventeenth century as in the twentieth (Berman 1981). But in earlier times, commodity vendors were largely overshadowed by other socializing institutions: church and king, family and school. Consumption took place within a larger cosmological framework composed of folklore and religion. Now that framework, while not absent, has receded. Commodity vendors have become more powerful and visible: indeed one could argue they have taken center stage. Their definitions of culture are the most pervasive, the most relentlessly available. The prevalence of fantasy in those definitions has promoted some commentators to call advertising the "folklore of industrial man" (McLuhan 1951)--a new popular symbolism for a secular society. One obvious difficulty with this view is that ads are not created by the "folk" but by elites. There is a further problem as well. Magic and folklore have always had a variety of purposes: socializing the young, reaffirming established authority or subverting it in the name of some alternative ideal, providing solace to the aggrieved, offering access to the supernatural world--to mention just a few. But in advertising, fantastic visions are merely assembled and disassembled as the market requires; they have no larger purpose.

BEYOND VEBLEN, II: FROM CULTURAL TEXT TO CULTURAL HISTORY

So how does one analyze these elusive artifacts of consumer culture? Quantitative content analysis may help, but its value is limited because each advertisement (not to mention the code ads embody in toto) constitutes its own fictive universe with its own inner logic and structure. The identification and enumeration of several discrete messages in an ad may violate its wholeness as a cultural text. If the analysis is historically uninformed, it may not be much more helpful than counting the heaving bosoms in nineteenth century formula fiction. In any case, though, quantification can still be invaluable for uncovering basic information that may serve to check the assertions of more impressionistic cultural analysts. It might be possible, for example, to demonstrate that nuts-and-bolts product differentiation has survived and flourished alongside fantastic imagery--contrary to the arguments of some critics. It might also be possible to claim justly that this or that ad is truly typical of this or that time or place--and that is no small achievement.

Besides viewing national advertising as an information system to be dissected quantitatively, it might also be helpful to see it as the official art form of corporate capitalism (Williams 1980, Schudson 1984). As the sociologist Michael Schudson argues, advertising is "capitalist realism"--a counterpart to the Soviet tractor aesthetic; an idealized vision of life in a particular kind of society. This definition suggests the relevance of rhetorical and iconographic analysis, and we are beginning to see it in abundance. With imagination and dexterity, commentators have demonstrated how an ad for frozen peas and beans celebrates the triumph of spring, fertility, and life over the frozen barrenness of death (Leymore 1975); and how an ad for Shield deodorant soap enacts a familiar misogynist fantasy: an authoritative, castrating female takes charge of her simpering man (Miller 1982). These sorts of analyses are enormously valuable, but limited by the idiosyncratic basis of their evidence. That problem may be alleviated by sampling techniques, but a deeper difficulty remains--a difficulty that affects any sort of content analysis, quantitative or semiotic. And that is the tendency to treat advertisements as if they were direct expressions of mainstream values.

Advertisements are not direct expressions of mainstream values. They are designed by a specific social group, for a specific purpose. As part of broader

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merchandising strategies, advertisements aim to sell goods by surrounding them with cultural meanings that (the admakers hope) will resonate with an imagined audience of consumers. When we examine American advertisements as artifacts, we are not looking at direct representations of how Americans felt or thought at a particular time, we are looking at what admakers felt and thought would resonate with a particular audience at a particular time. To understand advertising's cultural significance, we need to do more than engage in rhetorical or iconographic analysis (though that is surely crucial); we need to examine the decision-making process that brought particular advertisements into being. As an exercise in the cultural history of marketing, we might look briefly at Pepsi-Cola advertising from the 1930s to the 1980s.

The Pepsi Cola company began as a drugstore operation in 1903 and by the 1920's had emerged from deep in the pack to run a clear (albeit distant) second to Coca-Cola. Under the impact of the Great Depression, Pepsi turned to radio jingles advertising "Twice as much for a nickel." The economy theme persisted into the 1950's, when the actress Joan Crawford (who married Pepsi head Albert Steele in 1955) became a major influence in the Company. Crawford surrounded the product with images of white-gloved socialites sipping Pepsi under potted palms. "The Sociables" campaign flopped and the company floundered for several years. In 1960 Pepsi switched its advertising account from Kenyon and Eckhardt to Batten, Barton, Durstine, and Osborne (BBDO), and tripled its advertising budget within three years. With the joint guidance of BBDO and Donald Kendall (who became Pepsi's chief executive officer in 1963), Pepsi ads shifted toward a youth appeal, beginning with "Now It's Pepsi For Those Who Think Young" in 1960. That approach has persisted to the present.

In December 1964, the Pepsi Generation burst onto America's telescreens, armed with hang gliders, dune buggies, and other emblems of youthful vitality. The accounts of this campaign, obtained in interviews with BBDO and Pepsi executives and on file in the Smithsonian Institution's Oral History of Advertising Archives, reveal the idiosyncratic decisions and fortuitous events that shape an advertising campaign. In 1969, for example, a Pepsi executive recalls that the marketing committee adopted the slogan "You've got a lot to live and Pepsi's got a lot to live" because the majority felt the line would "bring optimism to a country that was longing for it." In 1972 the slogan "Pepsi for the Smiling Majority" (an allusion to Nixon's "Silent Majority") was tried out on the bottler's convention and firmly rejected by the bottlers' wives. The turn to sentimental narrative in the mid-70's (immigrant family re-unites at dock; family farmers give their son a horse for his birthday) was an effort to ride the "nostalgia wave" of that historical moment. All this suggests that despite the use of statistical research, "focus groups," and other marketing tools, key policies can often be formulated on the basis of personal whims--then fortified with liberal doses of pop sociological mush.

There is a larger point as well. The Pepsi ads do not provide any clear reflection of recent cultural history. But they do provide an interesting angle of vision from the perspective of a particular social group. Professional admakers and corporate marketing specialists are part of the "new class" of corporate managers and administrators that emerged during the early twentieth century and has ever since played a critical role in shaping our dominant culture. Gramsci would call it a hegemonic culture--a culture that emerges when a constellation of social groups solidifies into a "historical bloc" based on common values, perceptions, and economic interests. That historical bloc exercises hegemony when it achieves dominance in the cultural as well as the conomic sphere, when it can claim with at least some plausibility that its interests are those of society at large, when its particular world view becomes

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the "common sense" of the entire culture. Other social groups may ignore, dismiss, or resist the dominant vision of life; they may even try to generate counterhegemonic alternatives. But they cannot escape the pervasive presence of the hegemonic culture.

A huge part of the current hegemonic culture is made up of the rhetoric and iconography of corporate advertising. The case of Pepsi reveals that advertising symbolism can be shaped by rivalries within and between corporations, by traditions and conventions within the admarkers' guild, by clients' whims, and by the prejudices, anxieties and frustrations of agency and client staffs. The educated, affluent-suburban people who plan advertising campaigns are often extraordinarily insulated from the rest of the population: they often project their own assumptions onto their imagined audience; they often form their perceptions of "the national mood" on the basis of pop sociology written by people like themselves in magazines like Time and Newsweek. The hegemonic culture feeds upon itself.

The Pepsi turn to youth, for example, may have stemmed from the admakers' reaction against their own culture of the 1950's: a period when the folklore of advertising was characterized by dis-ease, self-hate, and endless chatter about conformity; when trade journals themselves were filled with the complaint that ad agencies were richer but campaigns duller than ever before. On the eve of the vaunted "Creative Revolution" in advertising, Pepsi admakers may have been animated in part by their own yearnings for personal and professional revitalization--as well as by media clichés about the cultural rejuvenation allegedly being orchestrated under the direction of the Kennedys. Maybe admakers sensed their own need for a new set of "social hieroglyphics" (Marx 1967, p. 74) and projected that need onto the wider culture. One conclusion is certain: the Pepsi campaigns were not a direct expression of vaporous "trends" in consumer culture. What they were was a good deal more complicated, and will not be clarified until we give consumer culture a local habitation and a name--until, that is, we get down to historical details.

The largest problem remains: the problem of audience. We may never know much about how consumers in the past have responded to particular advertising strategies. But both survey research and textual/iconographic analysis indicate that we need to abandon one-dimensional models of the consumer as passive victim, hedonist, narcissist, or status striver.

It is a great mistake, first of all, to assume that consumers have bought into a self-indulgent "leisure ethic." The economist Staffan Linder, in The Harried Leisure Class (1970) demonstrated that societies characterized by a superfluity of goods also suffer from a scarcity of time. People work overtime to buy snowmobiles, boats, and recreational vehicles, then lack the time to enjoy them. The average work week has not declined since 1920, and more Americans are taking second jobs than ever before. Given the tempo of life even off the job, one can conclude that the Frankfurt School theorists were onto something: under advanced capitalism, leisure can become as frenetic and performance-oriented as work, and "free time" can become an illusion.

It is an equally grave mistake to assume that working-class people have uncritically embraced the dominant consumer culture. If Richard Sennett and Jonathan Cobb are right, in The Hidden Injuries of Class (1972), the working class quest for consumer goods is not a sign of assimilation; it is an effort to heal the wounds inflicted by the class system: the sense of guilt and self-contempt for failing to acquire the "badges of ability" that signify success in the dominant culture. Consumer goods do not represent identification with

individualist values, as Marcuse insisted; rather they embody an effort to shield oneself against the corrosive effects of those values. Recent research in the sociology of consumption has come to similar conclusions, though it is based on a broad cross-section of Chicagoans and not merely working-class informants (Csikszentmihalyi and Rochberg-Halton, 1981). The studies have shown that the most prized possessions in the homes of those surveyed were objects that cemented bonds of memory, community, and kin: vacation souvenirs, family snapshots, grandmother's pastry whisk. For the people interviewed in these surveys, consumption was not an enactment of self-seeking individualism; it was a way of reaffirming social and familial bonds threatened by the atomizing effects of the dominant culture. When one adds the importance of food items in most consumer budgets, and considers the centrality of shared meals as a ritual reaffirmation of social ties, the picture becomes even clearer. Veblen and his tradition have misled us: consumers are not mere status-strivers; they can carve out their own social meanings even in the high-intensity market setting, amid the propaganda of commodities.

And in fact, the symbolic universe of advertising reflects those ambiguities. Advertisements for A.T.&T. affirm family ties while those for Michelob celebrate the free-floating self. Advertising promotes anomie but also reflects longings to transcend it. There is a moral case to be made against advertising as a cultural force, but it needs to be made with care and discrimination. Advertising can be used for philanthropic or other public-spirited purposes; and the best commodity advertising has not only helped improve material conditions of life but has also brought a tremendous amount of humor and creative vitality to our visual culture. Sweeping condemnations of advertising simply play into the hands of apologists like David Ogilvy, who can then dismiss all critics as puritanical killjoys and plodding literalists--which they often are.

Maybe the strongest base for criticism is the recognition that advertising constitutes an instrument of cultural hegemony wielded by a particular social group. These cultural consequences are an unwitting result of actions aimed at other ends: pleasing a client, making a living, increasing profits. There is no conspiracy to brainwash the masses. The essence of a hegemonic culture is not manipulation but legitimation. Advertising helps to create a dominant culture which legitimizes the hegemony of managerial elites by promoting some cultural meanings, ignoring or suppressing others. The ideas, values, and experiences of dominant groups are validated in public discourse; those of subordinate groups are not--though they may be vigorously expressed in neighborhood bars and around kitchen tables.

If historians focus on this process, they can find a way to reconcile two contradictory trends in recent historiography: cultural historians have emphasized the emergence of an American value-consensus during and after World War II; labor historians have emphasized the persistence of a distinctly working-class way of life. It may be more helpful to concede that we do not have a genuine cultural consensus. We have a dominant consumer culture and a number of subordinate cultures which lack the language to define a coherent challenge to it. As the sociologist Michael Mann observed in 1970, summarizing survey data on working-class values since World War II: "it is not value-consensus which keeps the working class compliant, but rather a lack of consensus in the crucial area where concrete experiences and vague populism might be translated into radical politics." Schools and mass media do not engage in indoctrination; they merely perpetuate "values that do not aid the working class to interpret the reality it actually experiences" (Mann 1970). In other words, communal and egalitarian values rooted in working class experience remain diffuse because they lack legitimacy in public discourse. It is no

accident that, with only a few interruptions, working class participation in national elections has declined steadily in the twentieth century (Kleppner 1982). The problem is not the "privatism" of ordinary people, but their inability to see themselves as part of a dominant culture of packaged politicians, technical expertise, individual striving, and clean, upscale consumption.

It is necessary to be clear on this point. Advertising is not to be singled out for blame as a cause of political apathy. That would be ridiculous. But advertising collaborates with other cultural institutions--particularly mass media--to create a dominant culture which sanctions some forms of experience and renders others invisible. Without postulating a fall from crystalline clarity, one can admit that political debate is trivialized as packaged politicians are sold to packaged audiences. A particular, competitive style of life becomes the norm; a particular set of inequalities is implicitly legitimated; a particular psychic strategy is elevated over all others: the search for coherent identity through the assemblage of mass-marketed commodities.

We can abandon Veblen's one-eyed emphasis on pecuniary emulation; we can forget Mills's cheerful robots and Marcuse's one-dimensional men. After all we have learned about the complexities of consumer behavior, it would be a dour and absurdly superficial critique that concentrated on the individual consumer, buying a new dress or enjoying a good meal. Criticism ought to target the systemic features of consumer culture--the pressures organized to promote a way of life characterized by relentless getting and spending, at the expense of human and natural resources, for the primary benefit of managerial elites.

Critics ought not to cite metaphysical or ascetic definitions of true needs. They ought to argue that a consumer culture may be incompatible with genuine pluralism and democracy.

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Barbara L. Gross & Jagdish N. Sheth

Time-Oriented Advertising: A Content Analysis of United States Magazine Advertising, 1890–1988

Advertising appearing in *Ladies' Home Journal* reveals an increased emphasis on time-oriented concerns and product benefits. The study findings are consistent with claims that industrialization and urbanization are accompanied by time pressures and greater concern with time.

OUR study examines the proposition that, as the United States has evolved from an agrarian to an advanced industrial/urban society, advertising themes have changed to reflect an increased concern with time. Social and behavioral scientists have associated industrialization/urbanization with time scarcity and a high value on time. For example, economists have suggested that as productivity increases with industrialization, time becomes more valuable (e.g., Becker 1965; Linder 1970) and sociologists have suggested that the social interdependence accompanying industrialization/urbanization necessitates synchronization, fractionalization, and eroded personal discretion over time (e.g., Lewis and Weigert 1981; Sorokin and Merton 1937).

Though concern with time is widely assumed to accompany industrialization/urbanization, little empirical evidence has been advanced. We provide an initial examination of the issue through content analysis of magazine advertising appearing over the past 10 decades. Our study contributes to the growing base of marketing and consumer research on time. That time concerns affect purchasing and consumption behavior is well recognized. However, the assumption that consumers have become more concerned with time remains virtually untested. Our study also contributes to the growing interest in historical analysis and perspectives in marketing (e.g., Fullerton 1987; Tan and Sheth 1985). The research represents the type of "small-scale study" advocated as necessary if marketing is to develop a sophisticated historical perspective (McCracken 1987, p. 141).

Time and Consumer Behavior

As evidenced by a growing literature, the time dimensions of consumption are of considerable interest. Beginning in the late 1950s, writers observed consumers' concerns with time costs and time savings (e.g., Kelley 1958). The treatment of time pressure by Howard (1963) and Howard and Sheth (1969) fostered interest in the effects of time constraints (e.g., Schary 1971; Wright 1974). Jacoby, Szybillo, and Berning's (1976) early survey article demonstrated the interdisciplinary interest in time and fueled a growing interest among consumer researchers (e.g., Holman and Venkatesan 1979).

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Several notable research streams are evolving within the consumer behavior literature, including research on time allocation (e.g., Hendrix 1984; Holbrook and Lehmann 1981) and inquiry into the behavior of time-pressured dual-income households (e.g., Nickols and Fox 1983; Reilly 1982). Consumer researchers also have contributed work on temporal orientation and perception (e.g., Hornik 1984) and several conceptual works and interdisciplinary reviews of time research have appeared (e.g., Feldman and Hornik 1981; Gross 1987; Venkatesan and Anderson 1985).

Societal Concern With Time

Researchers across disciplines have observed cross-cultural differences in temporal orientation, posited to be influenced by the socioeconomic structure (e.g., Graham 1981; Jones 1988; Levine 1988). In marketing and consumer behavior, much of the work relevant to time has received its impetus from the observation that Western society is "time scarce," placing a high degree of value on time (Berry 1979; Sheth 1983). Literature from economics, sociology, and anthropology suggests that consumers in industrialized/urbanized societies are more concerned with time than are consumers in less developed societies and are more likely to regard time as a scarce resource (Gross 1987). It has even been argued that the proliferation of time- and labor-saving products has exacerbated time scarcity by encouraging higher housekeeping standards and increased consumption administration (e.g., Cowan 1983; Linder 1970).

Research Hypotheses

Concern with time is a social value widely believed to characterize industrialized/urbanized societies (Bell 1973; Mumford 1934; Toffler 1980). Because advertising both reflects and communicates cultural values (Marchand 1985; Pollay 1984, 1986), articulating the "rationale for consumption" (Pollay 1985, p. 24), we suggest that as industrialization/urbanization advances, advertising will increasingly refer to time-oriented concerns and product benefits. As advertisers perceive consumers' concern with time, they will appeal to that concern and promote the time-oriented benefits of their products.

In addition, we expect that as industrialization/urbanization progresses, time-oriented appeals will be given greater emphasis within time-oriented ads, often serving as the primary appeal. As commonly defined, the primary appeal is the selling point that is most emphasized, with all other appeals being secondary (or, where a large number of appeals is used, tertiary). The primary appeal is the major promotional theme and is headlined, listed first, listed in the largest or boldest type, and/or afforded a substantial portion of copy. Whereas the primary appeal serves to capture attention and involvement, secondary/tertiary appeals reinforce and provide additional rationale for valuing the advertised product. In summary, we hypothesize that:

H_1: United States' magazine advertising has made reference to time-oriented concerns and product benefits with increasing frequency during succeeding decades since the late 1800s (when the United States was largely an agrarian economy).

H_2: Time-oriented appeals have been used as primary appeals with increasing frequency during succeeding decades since the late 1800s (in contrast to their use as secondary or tertiary appeals).

Though the United States' industrial revolution typically is dated as beginning in the 1700s, the late 1800s is an acceptable starting point for the analysis. First, it is generally held that the industrial revolution did not affect the home and work lives of the general populace with full force until into the twentieth century (e.g., Cowan 1982; Zaretsky 1986). Census data show the populace during the late 1800s and early 1900s as predominantly rural and largely employed in the agricultural sector. Further, it was during the late 1800s that the "consumer revolution" or "culture of consumption" (characterized by a sort of societal preoccupation with consumption) took hold in the United States (e.g., Fox and Lears 1983). This period concurrently fostered the beginning of "modern marketing" and a heightened focus on advertising as a social and cultural force (e.g., Ewen 1976; Fullerton 1988).

Research Method

Sampling and Coding

The study involved the content analysis of magazine advertising appearing in one publication (*Ladies' Home Journal*) over time. By limiting the study to one magazine, we controlled between-magazine variation. Magazine advertising was selected as the most appropriate sampling frame because of its content characteristics and accessibility. Newspapers largely feature local and price-oriented advertising, and television, radio, and direct mail archives do not date back to the late 1800s.

Three issues were analyzed from each decade since the late 1800s. Virtually all advertisements appearing in the sampled issues were analyzed. The rationale for using *Ladies' Home Journal* and further description of the sample are provided in the Appendix.

Coding was conducted by the first author and by an independent judge. H_1 was tested by first determining whether each ad reflected an orientation toward time. Ads associated with a "no" answer were simply tallied. Ads associated with a "yes" answer

were analyzed further to determine specific categories of appeal. The following coding categories were developed in a pilot study (see Appendix).

- Presents the advertised product as *fast to use*.
- Presents the advertised product as a means of *saving time*.
- Presents the *consumer as busy* and as regarding *time as scarce/valuable*.
- Specifies the *amount of time required* to use the product.
- Presents the product as a means of making *double use of time*.
- Presents the product as a means of *escaping a typically time-oriented lifestyle*.

To test H_2, all time-oriented advertisements were analyzed to determine whether time appeals were used as primary appeals (see Appendix).

Reliability

As suggested in the content analysis literature (e.g., Krippendorff 1980), the judgments of the two coders were compared to determine interrater reliability. Further, test-retest reliability was measured by replicating the first author's coding approximately two months after the initial analysis.

Interrater and test-retest reliability rates are detailed in Table 1. Reliability coefficients over 85% are regarded as satisfactory (Kassarjian 1977), and coefficients obtained in our study are considerably higher. For example, overall interrater and test-retest reliability rates by category are 96% and 97%, respectively. Disagreements between coders were resolved through discussion.

Results

Figure 1 tracks the proportion of ads citing time-oriented concerns and product benefits.[1] Consistent with H_1, the proportion increased steadily from 1890 until just before World War II, then increased sharply in 1943 as advertisers attempted to appeal to women busy with "war work" in addition to homemaking responsibilities. After World War II, the proportion decreased but was largely maintained above the pre-war level. An exception is the uncharacteristically low proportion shown in 1977. Additional analysis suggests that pressures due to the OPEC oil embargo led to a temporary emphasis on energy conservation and a marked increase in price-oriented advertising in that year. Finally, the proportion has been maintained at a relatively high level during the past decade.

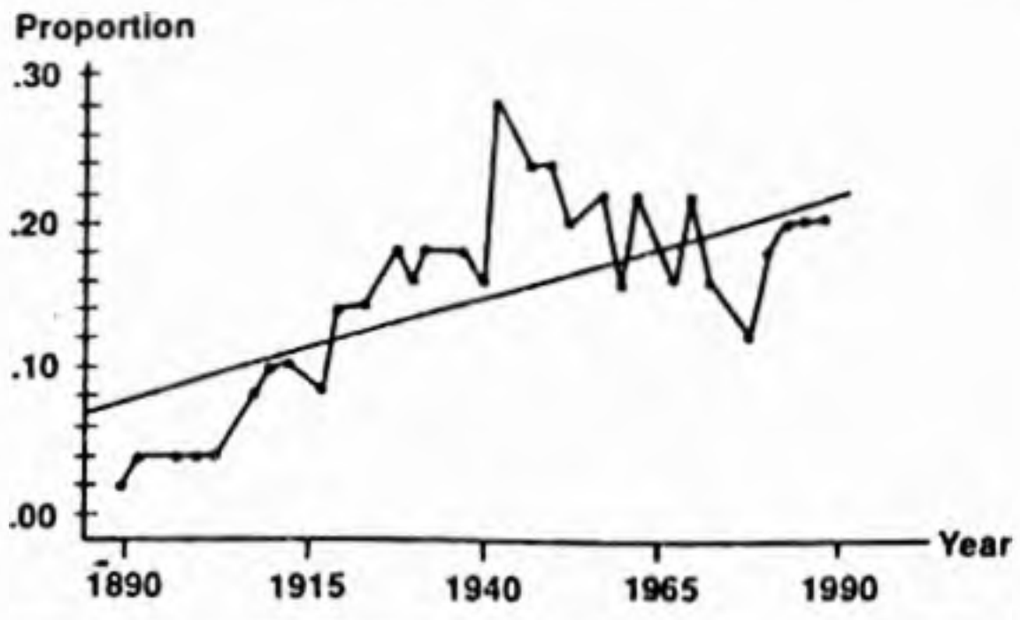
It should also be noted that a wider range of time-oriented appeals was employed in the latter decades.[2] Early time-oriented ads primarily used "fast to use" or "saves time" appeals. Later advertising maintained a strong emphasis on these appeals, but also increasingly portrayed consumers as busy and specified the amount of time required to use the advertised products. It is primarily recent advertising that portrays products as affording double use of time and escape

[1]Table available upon request.
[2]Table available upon request.

TABLE 1
Reliability Rates

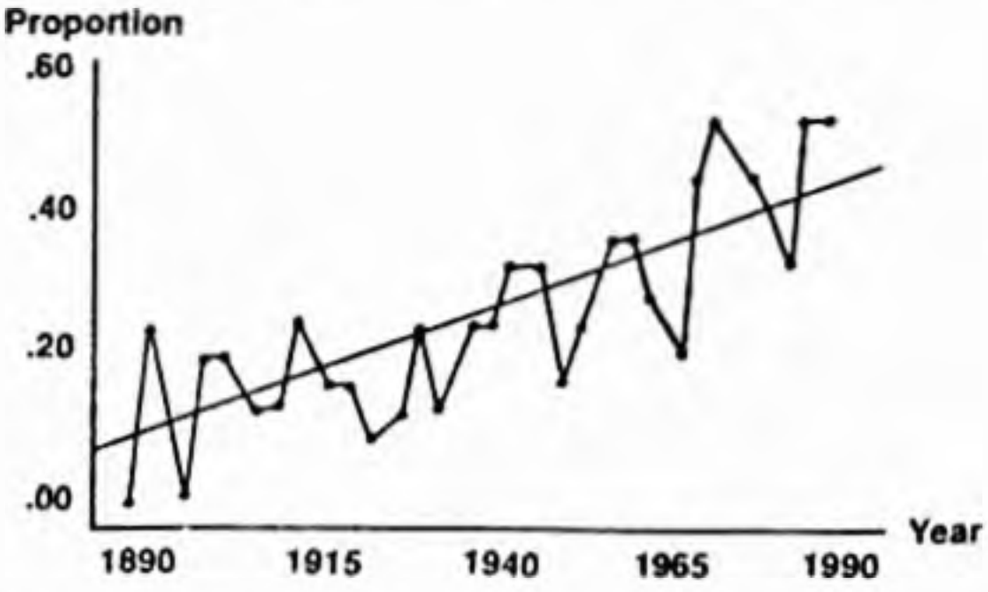
	Reliability			
	Interrater		Test-Retest	
	n	% Agreement	n	% Agreement
Judgment				
Time-oriented vs. not time-oriented	144	99.3	2,913	97.1
Primary vs. secondary/ tertiary appeal	113	99.1	363	98.6
Category Judgment				
Fast to use	142	97.9	282	97.2
Saves time	82	93.9	131	94.7
Presents consumers as busy	39	94.9	69	97.1
Specifies amount of time required	45	97.8	80	98.8
Double use of time	17	88.2	14	85.7
Escape time-oriented lifestyle	8	100.0	8	100.0
Overall reliability by category	317	95.9	584	96.6

FIGURE 1
Proportion of Ads Containing Time-Oriented Appeal(s) (sampled years 1890–1988)



Regression equation:
$y = 6.6\% + .17\%x$ (x = number of years since 1890)
$r = .74$; adjusted $r = .73$
Adjusted $r^2 = .54$
$F = t^2 = 35.8$ ($p < .001$; 1.29 d.f.)
($t = 5.98$, $p < .001$)

FIGURE 2
Proportion of Time-Oriented Ads Using a Time-Oriented Appeal as the Primary Appeal (sampled years 1890–1988)



Regression equation:
$y = 6.4\% + .38\%x$ (x = number of years since 1890)
$r = .81$; adjusted $r = .81$
Adjusted $r^2 = .65$
$F = t^2 = 56.6$ ($p < .001$; 1.29 d.f.)
($t = 7.53$, $p < .001$)

from a typically time-oriented lifestyle.

Figure 2 delineates the proportion of time-oriented appeals used as primary appeals.[3] As posited in H_2, time-oriented appeals have been used as primary appeals with generally increasing frequency since the late 1800s. Contributing to this trend is the fact that advertising during the first half of the century contained substantially more copy than is typical in recent ads. Ads often mentioned a time-oriented benefit as just one of a large number of diverse product benefits listed in the fine print. In contrast, recent advertising has used fewer appeals and has frequently emphasized time as the primary appeal.

At least two alternative explanations can be offered for the increased frequency of time-oriented appeals. First, the findings may reflect a changing product mix. Second, they may reflect an overall change in number of appeals per ad.

To test the first alternative, the product mix and frequency of time-oriented appeals by product category were examined.[4] Though the product mix did change over time (e.g., proportionally more personal care ads since the 1930s, fewer apparel ads since the 1920s), few categories showed pronounced upward or downward trends. Most importantly, the findings show time-oriented appeals used with increased frequency within the major product categories (e.g., food, personal care) and also within several minor ones. Hence, the trend does not appear to be explained by a changing product mix.

Relevant to the second alternative is Pollay's (1985) observation that the average number of appeals per ad has followed a curvilinear trend over the twentieth century. Our findings confirm this pattern for *Ladies' Home Journal* specifically. Ads in the 1930s through 1950s employed the largest number of appeals, and the number has declined since the 1960s. However, time-oriented appeals recently have appeared with increased frequency. Hence, the evidence does not suggest that the frequency of time appeals increased only in proportion to the total number of appeals.

Discussion

The evidence supporting the hypotheses is enriched by concrete examples illustrating the changing focus of *Ladies' Home Journal* advertising. Additionally, our observations are consistent with those reported in other advertising analyses and historical works.

The Late 1800s and Early 1900s

The preponderance of early advertising in *Ladies' Home Journal* targeted the housewife as she labored to maintain an efficient and hygienic home. Reflecting the still largely rural/agrarian character of the population and readership, ads were directed toward farm women as well as urban and suburban homemakers. Space was devoted to the advertising of farm land, livestock and poultry, farming equipment, and farm magazines.

[3]Table available upon request.

[4]Table available upon request.

As also observed by Pollay (1985), advertising at the turn of the century generally emphasized product attributes and availability rather than product benefits. Advertisers who did promote product benefits generally focused on effectiveness in performing primary functions or on capacity to relieve homemakers from "back-breaking" work. However, a few did promote products as fast to use or as helping homemakers save time, usually as a secondary appeal. Cowdrey's Soups, for example, were advertised (in 1893) as appropriate "if you have not the time . . . to elaborate a delicious soup," Jell-O was advertised (in 1903) as taking only two minutes to prepare, and the *Farm Journal* claimed (in 1907) to "cheer the busy housewife and show her the shortcuts."

In the next decade the emphasis on product benefits increased, but the majority of ads continued to emphasize attributes and availability. Though many products that might help the homemaker save time were introduced during this period, even benefit-oriented advertising mentioned time only infrequently. Instead, emphasis was on labor saving and "scientific management" in the home (Cowan 1982). Nevertheless, the proportion of ads using time-oriented appeals did increase during this period. For example, an ad for Van Camp's Pork and Beans (in 1913) pictured a woman leisurely reading, assured that "dinner is waiting" ready to "serve . . . in a minute." The Princess Electric Flat Iron (in 1917), with more typical emphasis on effectiveness before time savings, advertised "better work in less time."

The 1920s and 1930s

In contrast to earlier ads, appeals during the prosperous 1920s emphasized product benefits. Labor saving was still the dominant focus (Ewen 1976), but time saving received increased emphasis. Chevrolet, for example, argued (in 1923) that "the modern businesswoman needs her own personal transportation" because it "saves time" and "increases her efficiency." Appealing to homemakers, the Royal Electric Cleaner advertised (in 1923) that "no other cleaning method can clean so . . . quickly" and the Premier Duplex Vacuum was advertised (in 1927) as allowing the homemaker to "clean in half the time" and "enjoy double leisure."

Though the Great Depression created economic pressures that might be expected to have overshadowed concern with time (Marchand 1985), advertisers in the 1930s increasingly empathized with consumers' time-oriented concerns. Particularly notable is the explicit association of urbanization and time orientation. For example, American Telephone and Telegraph advertised (in 1933) that its operators' work habits were instilled by the "bustle of the city," giving them "one guiding purpose . . . [to] speed the call." However, because it was also fashionable to present multiple reasons to buy within a single ad, time-oriented appeals often were given only tertiary emphasis. Further, emphasis continued to be on labor savings before time savings (e.g., Sunbrite "cleans easier, works faster").

World War II

After the gradual increases of the previous decades, the proportion of ads containing time-oriented appeals rose dramatically with World War II. Advertising often conveyed a sense of urgency, focusing on the time pressures of women simultaneously handling "war work" and homemaking. As a result, time-oriented advertising emphasized efficiency rather than ease.

Reflecting advertising's wartime "morale-building" and "defender of the American way" roles (Fox 1975), time-oriented appeals were infused with an unprecedented energy and were typically "more emotive than informative" (Pollay 1985, p. 32). The Frigidaire refrigerator was promoted as a "time-finder" for homemakers "busy managing a household and doing [their] utmost to win the war" and Bucilla Yarns emphasized product quality by stressing that "time [is] too precious to waste." Emphasis was most often on time savings before labor savings (e.g., Super Suds "[does the] wash quicker and with less work"). Ad copy frequently argued that women had more important ways to spend time than in housework.

The Post-War Years

Advertising themes in the late 1940s through 1950s reflected the fact that the men were back from the war, their wives were back in the home, and Americans were ready to enjoy the fruits of affluence (Hine 1986). A pronounced emphasis on time was maintained immediately after the war, largely reflecting the proliferation of new "convenience products." As examples, Borden (in 1947) advertised its instant coffee for "that early morning rush, when time's so short" and Chef Boy-Ar-Dee advertised its products as "ready to serve at the drop of [a] hat." However, the continued emphasis on time also reflected a carryover of practices initiated by older brands during the war. For example, Old Dutch Cleanser claimed to be the "fastest" cleanser for "when minutes count" and the Easy Washer-Ironer claimed to do a "week's wash in less than an hour" and "save ironing time."

Though time-oriented advertising subsided somewhat during the 1950s, the frequency was maintained above the pre-war level. Considerable emphasis was placed on the ability of products to provide leisure time. As examples, DuPont advertised nylon fabric as allowing "more fun time, less chore time" and Stanley Home Products promised "more golden hours of leisure."

The 1960s and 1970s

The use of time-oriented appeals fluctuated during the 1960s and 1970s, but the emphasis was generally more pronounced. Product attributes were once again more emphasized than product benefits, translating into "rational" and pragmatic time-oriented advertising. Most notably, the leisure time theme so prominent in the 1950s virtually vanished, being replaced by an emphasis on productivity and efficiency. For example, an ad for Armstrong One-Step Floor Care (in 1963) included an itemized time budget and Midol was advertised (in 1967) as for the woman who must "set a fast pace" and "meet a tight schedule" with "no time to slow down."

The productivity theme became even more prominent in the 1970s, perhaps reflecting the growing numbers of working women. Advertising messages emphasized consumers' busy schedules and the "value" of time (similar to World War II advertising). For example, using an appeal similar to that of Bucilla in 1943, Coats and Clarke (knitting yarn) empathized that "time is worth a lot" and consumers must "[make] every second count." A number of advertisers specifically targeted time-pressured working women, and others (e.g., Calgon Bath Oil) offered products as reprieves from typically harried lifestyles.

The 1980s

Now, in contrast to prior decades, time-oriented advertising largely implies that consumers *expect* products to facilitate time savings and need not justify this expectation. Time-oriented concerns and benefits are communicated with unprecedented simplicity, suggesting that time orientation is a well-understood value. For example, an ad for Hunt's Manwich (in 1986) headlined "when it's dinner time and time is tight" and Hormel advertised its Great Beginnings Soup Starter (in 1986) as simply the "rushin' revolution." Time-oriented appeals are now very frequently used as primary appeals.

Also notable is the increased frequency with which the amount of time required is specified. Traditionally used with "convenience products," the "amount of time" appeal is now used with products not customarily associated with time savings. The increase is largely attributable to food ads in which copy features "quick" or "time-saving" recipes.

Conclusion and Directions for Future Research

Pollay (1984) observed that the values communicated in advertising have changed only minimally over time. Hence the increased frequency and emphasis given time-oriented appeals are particularly interesting. The results of our study indicate a perception that consumers are increasingly concerned with time. The findings are congruent with the common belief that time concerns accompany, and possibly emanate from, industrialization/urbanization. They are of theoretical significance because, though industrialization/urbanization has been associated with time concerns, little empirical evidence has been advanced.

Because we examined the content of advertising in only one magazine, with a target audience exclusively female and residing within the United States, confidence in the generalizability of the results may be enhanced through a variety of replications:

1. *Replication across publications/market segments.* To ensure validity across magazines and market segments, the study might be replicated with other magazines (e.g., general interest, news, men's, and other women's magazines; magazines in other industrialized/urbanized societies). Analysis of other media (e.g., comics, novels) also may be instructive.
2. *Cross-sectional/cross-cultural replication.* In contrast to the longitudinal approach employed in our study, content appearing in diverse contexts (e.g., industrialized, industrializing, and agrarian economies) at one point in time might also be examined. Such inquiry may provide a more direct indication of industrialization/urbanization than the successive decades used in our study.
3. *Replication using an index of industrialization.* Finally, stronger tests may be facilitated by developing an index of industrialization. Components might include the degree of economic reliance on manufacturing, the degree of urbanization, and the degree to which advanced technologies have been adopted and diffused.

Beyond these replications, any number of specific questions warrant focused study. For example, future research might ask:

- How has the specific character of time-oriented appeals changed? What societal events or trends have fostered observed changes?
- What effect has the increased number of working women had on the frequency and character of time-oriented appeals?
- How salient is concern with time? Is it now so presumed that it no longer requires rationalization?
- What will be the effect of the emerging "information," "service," or "postindustrial" economy? Is postindustrialism accompanied by greater personal discretion over time and a return to a less time-oriented society?

Appendix
Details of Research Method

Sample

Four magazines published during the decades of interest were identified. In comparison with the others (*Good Housekeeping*, *Redbook*, and *National Geographic*), *Ladies' Home Journal* has the longest publication history (since 1883) and traditionally has had the highest circulation. According to the Audit

Bureau of Circulation, *Ladies' Home Journal* has ranked among the top 10 since inception and, during the first half of the century, consistently ranked among the top five.

Ladies' Home Journal offers desirable audience characteristics. It is appropriate as a sampling frame because women historically have been responsible for the bulk of retail buying (Marchand 1985). Further, the magazine has been "notoriously stable in [its] editorial policies and audience loyalties" (Pollay 1985, p. 26) and has consistently appealed to the mainstream of American women in their practical and work-oriented pursuits (Wilson 1983). Having both prominence and mainstream appeal, its editorial and advertising content have been used previously to document social and marketing trends (e.g., Cowan 1982; Ewen 1976; Marchand 1985).

The study sample comprises three issues from each decade. One issue was selected randomly from the first year of each decade (1890, 1900, . . . 1980), and one issue was selected randomly from each of the first and last of the mid-decade years (1883, 1893, . . . 1983; 1887, 1897, . . . 1988). Within each issue, all ads exceeding two inches by one column were analyzed. Because the earliest issues were unavailable, the sample dates back only to 1890. In total, 31 issues and 4382 ads were analyzed (657 were judged to contain time-oriented appeals).

Development of Coding Categories

We anticipated that time-oriented concerns and benefits would be communicated through a variety of appeals. Hence a pilot study was conducted to develop coding categories and preview other measurement issues. Approximately 2100 ads from the March or April 1986 issues of 26 popular magazines (news, business, general interest, and women's magazines) were analyzed. The method used to develop the coding categories is consistent with the method used in the main study.

Coding

Coding was conducted by the first author and by an independent judge. Both performed all coding tasks. The first author coded all ads and the independent judge coded a randomly selected subsample (a minimum of five time-oriented ads and one non-time ad from each issue, supplemented to ensure adequate representation of all types of appeals). Approximately 5% of the ads (28% of time-oriented ads) were coded by both judges. To control for bias, ads were presented to the independent judge in random order.

Many ads contain multiple categories of appeal (e.g., "saves time" and "consumer as busy"). Thus, in testing H_1, judges indicated all applicable categories. The few time-oriented ads not fitting the predetermined categories were coded as "other." In testing H_2, judges indicated whether time-oriented appeals were headlined, listed first, presented in the largest/boldest type, afforded a substantial portion of the copy, or otherwise emphasized as the primary appeal.

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AMERICANIZATION IN PRINT ADVERTISING: AN HISTORICAL COMPARISON OF JAPANESE AND U.S. ADVERTISING SINCE 1945

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Abstract

Based on content analyses of Japanese and American magazine advertising since World War II, evidence is found for increasing Americanization in the clothing, furnishings, and language of Japanese ads. However, there now appears to be some tendency away from such Americanization. Furthermore, while there is some convergence of values in the advertising themes of the two countries, Japanese value-related themes remain distinct, suggesting that there has been little change in deep-seated cultural values.

Americanization

Several recent accounts note that Japanese fascination with American-sounding English-language brand names seems to have reached epic proportions (Burton 1983a; Fields 1983; Lubarsky 1984; Rice 1983). Occasionally the result is humorous to Western ears, as in names such as Germ Bread, Pocari Sweat soft drink, My Pee baby talcum powder, and Trim Pecker trousers. The use of such loan words, or gairaigo, from English has resulted in thousands of such words being incorporated into the Japanese language (Shibata 1983). Traditionally, however, they are written in a syllabic alphabet called katakana. In this case they are usually no longer thought of as being English and are viewed as essentially Japanese. Examples would be "the aboreji sarariiman (average salaryman) has a deito (date) with his gaaru furendo (girl friend)"DeMente and Perry (1967, p. 174).

The Japanese consumer speaking these words or reading them in phonetic katakana would not typically view them as English words any more than the pictographic kanji would be viewed as Chinese, even though the Japanese kanji were borrowed and adapted from the Chinese kanji. But recent advertising has often made it a point to retain the Western flavor of its borrowings by printing them in the original Roman alphabet.

Nor is the Japanese fascination with American images limited to borrowing brand names and words. American movie stars (Talen 1984) and American brands (Burton 1983b) are also popular. Evidence of Japan's adoption of Western, and especially American, culture is also found in increased use of Western products and styles in foods, clothing, and furnishings (Christopher 1983; Cleaver 1976; Fukutake 1974, 1982; Kikusawa 1979; Woronoff 1981). Kikusawa (1979) found for instance that Western furnishings replaced traditional Japanese tatami floor mats, folding bedding, and pillows, especially in the kitchen, dining room, guest room and rooms of the young, but not in the living room and rooms of the old. Japanese fascination with things American is also seen in the frequent attention to American styles and trends in Japanese media (Gardner 1961) and the several magazines solely devoted to reporting the American scene (Asahi Shimbun 1980).

In seeking a theoretical explanation for Westernization and Americanization in Japan, Lebra (1976) suggested that in Japan the West and the U.S. are associated with status and modern sophistication in somewhat the same way that France and things French have long been associated with elegance and status in the U.S. Rosenberg and Thompson (1985) and Lebra (1976) suggest that the notion of retto-kan or inferiority-superiority complex is responsible for this view. While the Japanese feel superior to the West from a traditional Japanese cultural perspective, they feel that they are seen as inferior from a modern Western perspective. It has even been suggested that the Japanese receptivity to Americanization is due to a psychoanalytic case of identification by the (World War II) defeated with the victor (Kitahara 1983).

However, it is important to recognize that the apparent Americanization of Japan is not new. While one analysis of the images of Americans in popular Japanese literature shows an improved image emerging in the 1970's (Kishi 1975), another analysis finds that Americanization began with the 1868-1912 Meiji era (called a "restoration" but more of a revolution in borrowing from the West), if not earlier (Kinmonth 1981). Kato (1965) suggests that there have been three periods of receptivity to Western ideas in modern Japanese history. Each followed a great change: the Meiji Reform, the First World War, and the Second World War. Kato also notes that each was supplanted by a period of nationalism in which receptivity to Wetern ideas vanishes. Clark (1985) suggests that Japan may be headed into such a cycle at the present time. In support of this conclusion there is evidence of a revival of interest in traditional Japanese lifestyles, art, clothing, and architecture (Kurita 1983, Burton 1985b).

Value Change

Besides attending to the apparently cyclical nature of Americanization in Japan, it is also necessary to ask whether the adoption of Western goods, styles, and language goes deeper than this to alter the values and ideals of traditional Japan. It is clear that in the past for instance, Japan borrowed not only kanji from China, but Buddhism and Confucianism as well. Replacing the native Shinto religion, they left a lasting residue on Japanese values and ethics (Christopher 1983). During the recent period of Westernization, however, there is some thought that the adoption of English language and American styles has not extended to deeper cultural values, which remain distinctly Japanese (Fields 1983; Jameson 1984).

One value uniquely associated with the U.S. at least since DeTocqueville's early eighteenth century observations, is its materialism (Belk and Pollay 1985). As defined by Belk (1983), materialism is the degree to which individuals believe that possessions or lack thereof provide satisfaction and dissatisfaction in life. Using a somewhat looser definition of materialism as interest in keeping economic growth high and prices low, Inglehart

(1971, 1981) advanced the hypothesis that generations raised in increasing affluence should be decreasingly materialistic. Since both the U.S. and Japan have shown rapid economic growth since World War II (with Japan's growth in fact being nearly three times greater than that of the U.S.--Yoshino 1975), they provide parallel opportunities for examining this hypothesis and at the same time examining the possible convergence of Japanese and American values regarding materialism. Using Inglehart's definition of materialism, however, his thesis has fared better in America and Wetern Europe than in Japan. Both Ike (1973) and Flanagan (1979) concluded that in Japan affluence has failed to make people less acquisitive, although Inglehart (1981) attempts to interpret their data to the contrary.

Perhaps part of the difficulty in validating Inglehart's thesis in Japan is that it is based on Maslow's (1954) need hierarchy. In this hierarchy after one has satisfied lower order needs (physiological, safety, social) less material higher order needs (self-esteem, self-actualization) are pursued. However, due to the less individualistic more social or collective cultures typical of the East (Barnlund 1975; Tan and McCullough 1985), Nevis (1983) suggests that an alternate hierarchy applies beginning with social needs and advancing with satiation to physiological, safety, and "self-actualization in the service of society" needs. If so, this could explain Ike's (1973) and Flanagan's (1979) findings, although both studies also suggest that Japan is moving toward a more individualistic set of values.

The less individualistic orientation of the Japanese should not be taken to mean a lesser emphasis of status symbols, however, Status is such a concern in Japan and so effects behavior that establishing one's status relative to another is a first item of business, seen to by the ubiquitous exchange of business cards from which status may be inferred both from one's position and the status of one's organization. Clothing, cars, and other accouterments of daily life are all expected to be consistent with one's place in society (Lebra 1976). Recent observations suggest that the emphasis on status symbols is increasing rather than decreasing in Japanese society (Beauchamp 1985; Burton 1985a; Casassus 1985; Fujiwara 1985). This is expected to be opposite the trend in the U.S. where status symbols appeared to peak in the 1930's (Belk and Pollay 1985).

A related value dimension which may be examined for convergence of American and Japanese culture is mode of control. The traditional U.S. mode of control is an active form called "primary control" (Rothbaum, Weisz, and Snyder 1982; Weisz, Rothbaum, and Blackburn 1984) in which the individual attempts to change other people, events, and circumstances in order to bring about a desired outcome. The form of control thought to be more typical of the Japanese is "secondary control" in which the individual adapts to the environment, other people, and circumstances rather than attempting to actively change them. If Japan has increasingly adopted Western values, we would expect to see a shift toward primary control as well.

Objectives

In light of the recent attention to Americanization in Japan and the suggestions that these changes have not affected Japanese core values, the objectives of this study were two. The first concern was to examine the patterns of Americanization in Japanese print advertising since 1945 in order to determine when and how this most recent trend to Americanize emerged and whether it has begun to decline. The second objective was to compare several key values expressed in Japanese and U.S. print advertising during this period in order to see whether there has also been any tendency to shift toward American values in the context of Japanese advertising.

Methods

Samples

The U.S. sample of print ads was randomly drawn from the ten largest circulation U.S. magaines, producing the following distribution of ads featuring the interior of a home:

1943-1947	100 ads
1953-1957	59 ads
1963-1967	32 ads
1973-1977	29 ads
Total	220 ads.

The home setting restriction was to assure a consistent setting for observing the values of interest. The apparent decrease in the number of ads featuring the home in each successive decade was instead due to an increasing number of ads featuring the advertised item by itself with no background setting (see Belk and Pollay 1985 for details).

The Japanese sampling plan also selected ads depicting the home and was applied to the three largest circulation consumer magazines for the period 1953 to 1983. These magazines were Bungi Shunju, Chuo Koron, and Shukan Asahi. Using each issue of these magazines at five year intervals produced the following sample:

1953	40 ads
1958	29 ads
1963	40 ads
1968	55 ads
1973	45 ads
1978	75 ads
1983	48 ads
Total	332 ads.

Coding

The set of U.S. ads was coded by three graduate students who were first trained to code a set of sample ads to the specifications they were selected to represent. Of greatest interest to the present investigation were three codes representing materialistic themes and alternatives (luxury/pleasure, status/prestige, practical/functional) and one code involving primary rather than secondary control (Doing). These categories were defined for coders as follows:

> Luxury/Pleasure--Explicitly mentions luxury (or related terms such as leisure, pleasure, regal, or pampered) or else depicts such pleasures visually.
>
> Status/Prestige--Shows or discusses prestige or social standing relative to others or uses high prestige source or association.
>
> Practical/Functional--Shows or discusses pragmatic product or service benefits such as

practicality, efficiency, cleanliness, or hygiene.

Doing--Shows or discusses a reader activity that is aided or provided by the product or service.

Interjudge reliabilities for these items (percent in agreement, Kassarjian 1977) averaged .87. Inconsistencies were able to be resolved by majority coding since there were three judges and each of the above codes was a dichotomous yes/no decision.

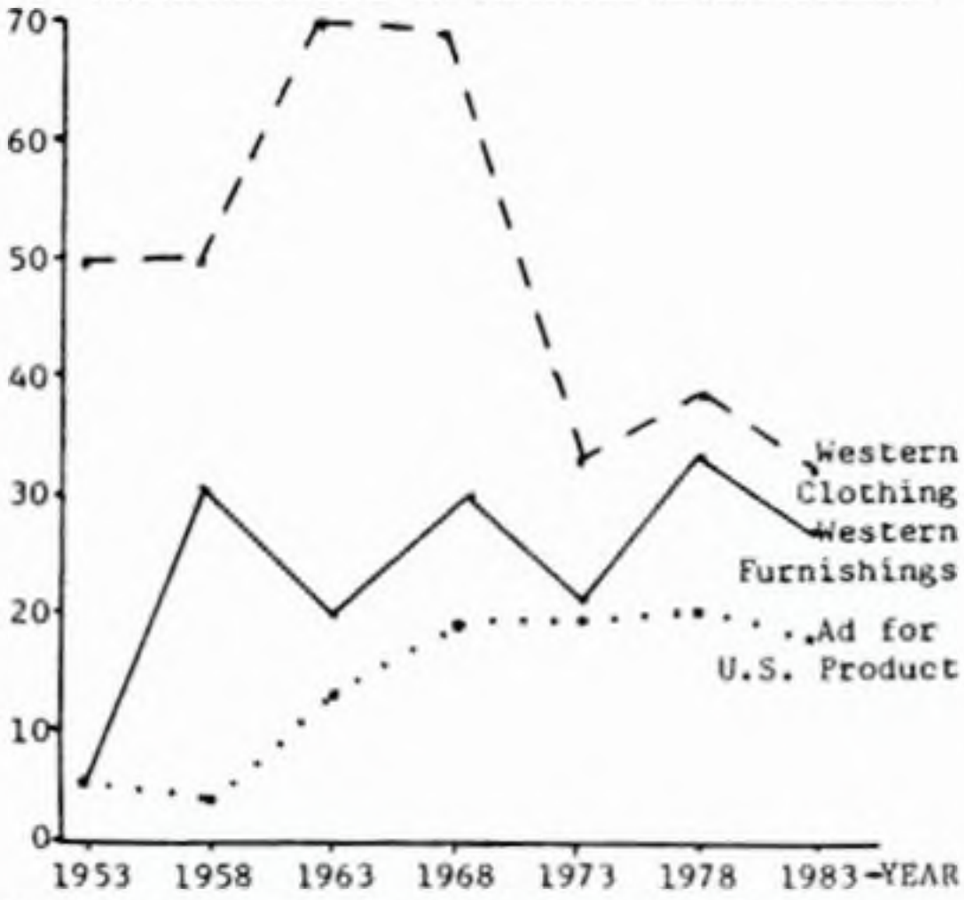
Coders for the Japanese ads were three different graduate students who were fluent in Japanese and had spent a minimum of five of the past ten years in Japan. Two were U.S. citizens and one was a Japanese citizen. Using codes defined as above as well as somewhat more mechanistic counts of Americanizations in these ads, interjudge reliability was .88 after training. In addition, the Japanese ad coders coded a sample of 10 U.S. ads using the same codings as the coders for the U.S. ads. This produced an average interjudge agreement of .85 between the Japanese ad coders and the U.S. ad coders. These reliabilities are quite acceptable (Nunnally 1967).

Results

Americanization

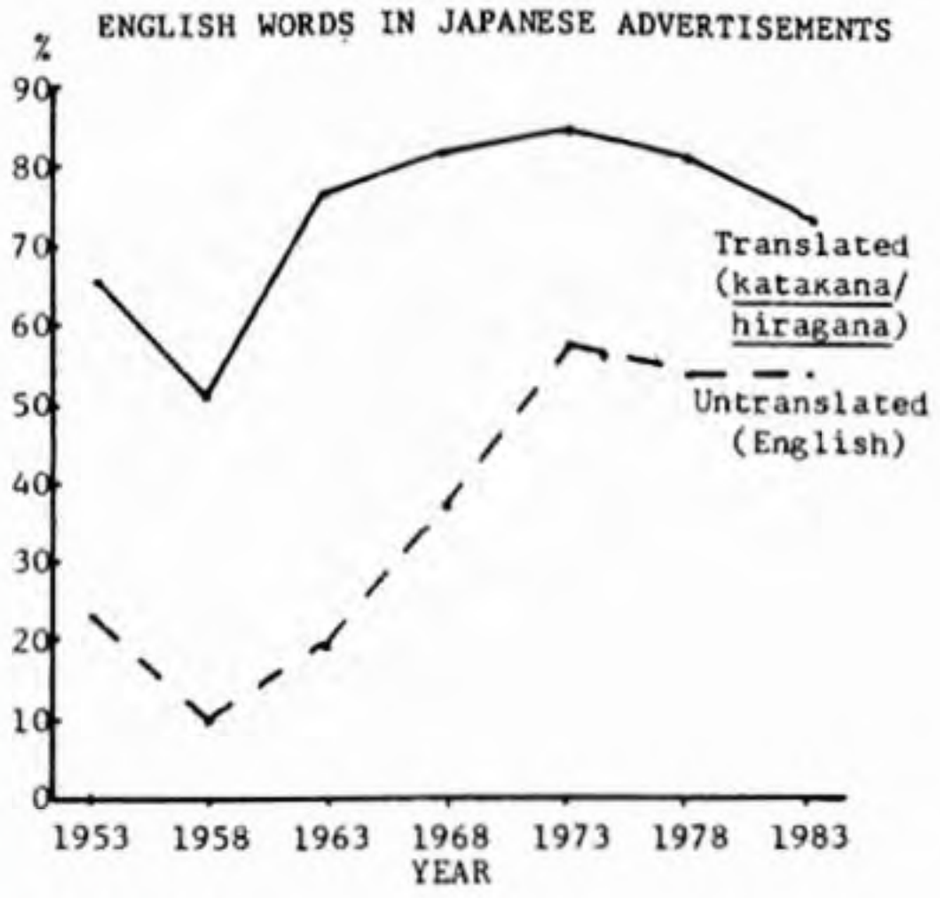
The Japanese ads were coded for the presence of Western furnishings, Western clothing, U.S. products being advertised, and both untranslated (English) and translated (katana or hiranga--two similar phonetic alphabets) English copy use in headlines. These indices of Westernization are shown for the years investigated in Figures 1 and 2. It can be seen that there are many evidences of Americanization in these various indices. The indices in Figure 1 indicate

FIGURE 1
% WESTERNIZATIONS IN JAPANESE ADVERTISEMENTS



that Western clothing was featured the most in the 1960's and that the use of Western furnishings and ads for U.S. products seem to have peaked in 1978. Figure 2 also shows evidence of a recent decline in Americanizations in the use of translated and untranslated English words. Both of these Americanizations appear to have peaked a decade before the most recent (1983) data, although they are still both quite prevalent.

FIGURE 2
ENGLISH WORDS IN JAPANESE ADVERTISEMENTS



Value Changes

The degree of materialism manifest in U.S. and Japanese advertising might be judged by comparing the incidence of less materialistic appeals stressing how practical or functional the advertised item is versus the incidence of more materialistic appeals to luxury/pleasure or status/prestige. These value themes are shown in Figures 3, 4, and 5. While both countries show a rise in the frequency of

FIGURE 3
FREQUENCY OF LUXURY/PLEASURE APPEALS IN ADVERTISEMENTS

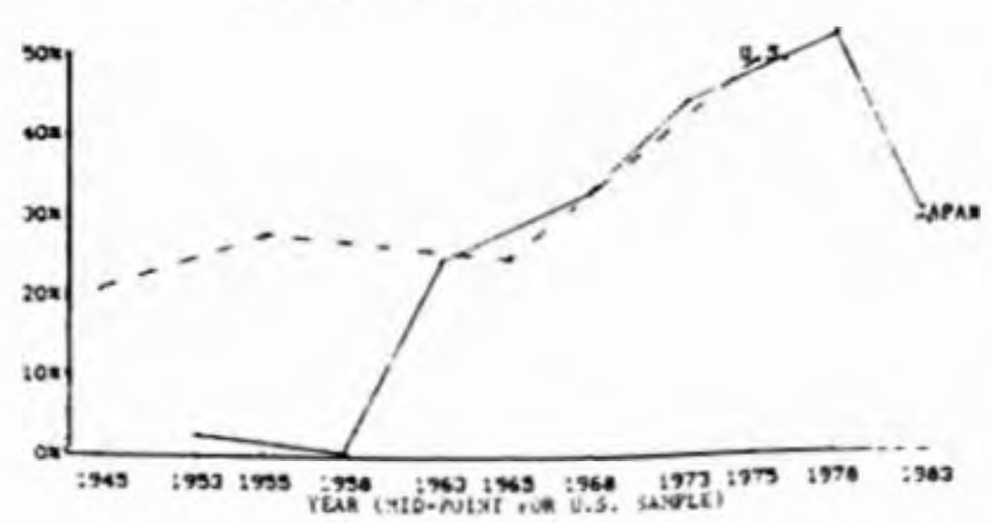


FIGURE 4
FREQUENCY OF STATUS/PRESTIGE APPEALS IN ADVERTISEMENTS

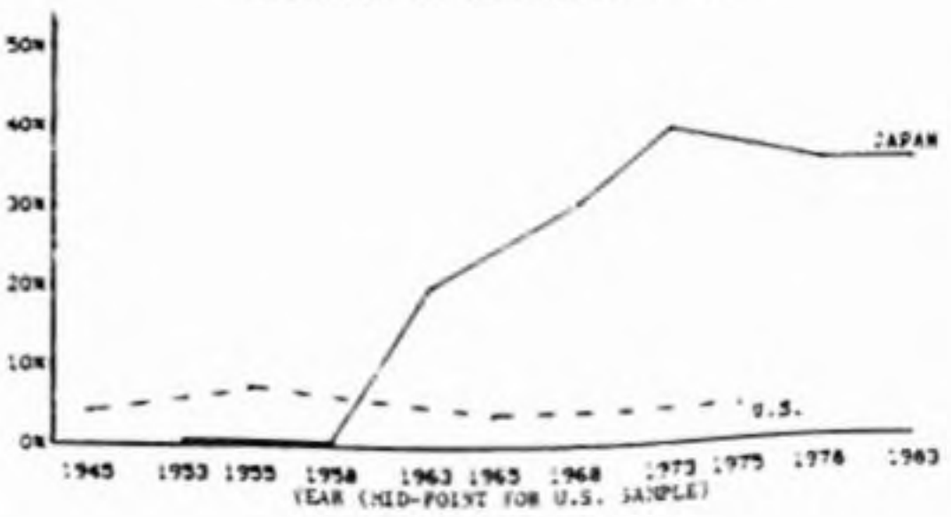
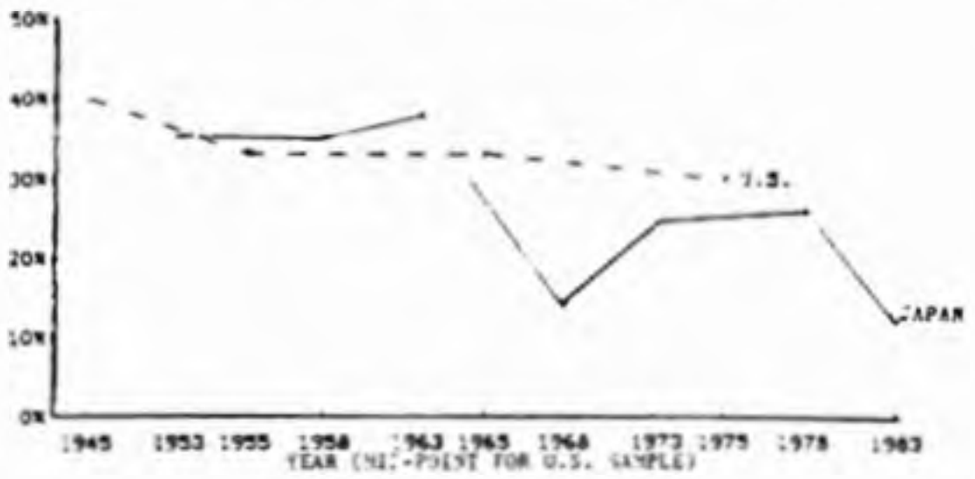


FIGURE 5
FREQUENCY OF PRACTICAL/FUNCTIONAL
APPEALS IN ADVERTISEMENTS



appeals to luxury or pleasure, only Japan shows the sharp increase in the frequency of status or prestige appeals. Figure 5 indicates that the use of practical and functional appeals has decreased in both countries over the period studied. Together with the evidence from Figures 3 and 4, this suggests that materialistic appeals have gained in relative frequency, especially in Japan.

Figure 6 shows one final value comparison between the two sets of ads. There is a striking difference between the high frequency of U.S. advertisements with doing themes and the low frequency of such ads in the Japanese ad sample.

FIGURE 6
FREQUENCY OF DOING THEMES IN U.S. AND
JAPANESE ADVERTISEMENTS

Discussion

There is clearly evidence of Westernization and Americanization in post-World War II Japanese print advertising. The interpretation of such advertising as borrowing a Western flavor to lend status (Lebra 1976) may be supported by the somewhat parallel rise of appeals to status and prestige found in the Japanese advertising. However, status appeals and the Americanizations investigated, have declined in the past decade. This tends to support Kinmonth's (1981) observation that the Japanese fascination with things Western has always been temporary and cyclical, and suggests that Japan is now moving away from such borrowings.

The question of whether Japanese advertising also seems to have been influenced by American values over the period studied was investigated first through a comparison of the use of materialistic appeals (luxury/pleasure, status/prestige) versus nonmaterialistic appeals (practical/functional) in the two countries. Both countries show an ascendancy of materialistic appeals over nonmaterialistic appeals. Appeals to luxury and pleasure are no more frequent in Japan than the U.S., but they grew from a base of almost no such advertisements in the 1950's when one-fifth of U.S. ads were already employing such appeals. In the case of appeals to status and prestige, Japanese ads grew from a similar base of almost no such appeals in the 1950's to the current situation in which approximately 40% of Japanese print ads (5 times as many as U.S. ads) use such an appeal. These findings suggest that the affluence produced in the two countries by post-war economic growth may have encouraged the use of materialistic appeals in both. The greater rise in the use of such appeals in Japan might be accounted for by the greater war-related industrial destruction in Japan.

The persistence of value differences between the two countries is also suggested by the much greater frequency of "doing" themes in U.S. advertising. Such advertising themes likely reflect the western bias in favor of "primary control" over "secondary control." While it has been suggested that Japan is becoming more like the U.S. in beginning to stress individualism over a collective spirit (Ike 1973; Barnlund 1975; Flanagan 1979), no such trend is evident in advertising appeals to act upon others and one's environment in a purposive and individualistic manner.

Thus while much attention has recently been paid to the Americanization or Westernization of Japan, it appears to be neither a recent nor lasting phenomenon. It also does not appear from the values investigated that Japan has also adopted Western values over its own traditional values.

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count 2%—20th following month.
General Advertising
Flat ..... .28"
Composition ..... .10"
Position Charges—Extra
Next to reading ..... .03"
Full position ..... .07"
Minimum full position 28 lines.
Classified Rates
.01 word. Minimum .20.
Reading Notices
.10 count line.
Contract Requirements
Contracts expire 1 year from date of first insertion, copy to start 30 days from date of contract.
Representatives
None.

WASHINGTON
DEMOCRAT

Published Evening except Sunday.
Rates effective April 1, 1922.
Agency commission 15%; cash discount 2%—15th following month.
General Advertising
Flat ..... .25"
Composition ..... .05"
Position Charges—Extra
Position 25%
Classified Rates
.01 word. Minimum .25.
Reading Notices
.10 count line.
Representatives
None.

BOONE
NEWS-REPUBLICAN

Published Evening except Sunday.
Rates effective September 1, 1920.
Agency commission 15%; no cash discount.
General Advertising
Open ..... .50"
300 inches ..... .8"
750 inches ..... .34"
Composition ..... .08"
Minimum display 5 inches.
Position Charges—Extra
Full position ..... .04"
Minimum full position 10 inches.
Position not sold on medical.
Classified Rates
.01 word. Minimum .25 per insertion. Cash with order.
Reading Notices
.10 count line. No news heads.
Representatives
None.

BURLINGTON
GAZETTE

Published Evening except Sunday.
Rates effective September 1, 1920.
Agency commission 15%; cash discount 2%—15th following month.
General Advertising
Flat ..... .025
Position Charges—Extra
Top, next and above reading 50%
General Advertising
Flat ..... .015
Position Charges—Extra
Next to reading 15%
Full position 25%
Minimum full position 42 lines.
Center spread charged 15 cols.
Minimum Sizes R.O.P.
1 or 2 columns 14 lines; each additional column 14 lines.
Classified Rates
.01 word. Minimum .25. Cash with order. Stamps taken on orders less than 1.00.
Reading Notices
.01 word; black face .02 word. Minimum .25. Cash with order. Stamps taken on orders less than 1.00.
Contract Requirements
Contracts expire 1 year from date of first insertion.
Special Pages
Farm news page Thursday.
Representatives
S. C. Theis Company.

CEDAR RAPIDS
GAZETTE

Published Evening except Sunday.
Rates effective October 1, 1920.
Agency commission 15%; cash discount 2%—10th following month.
General Advertising
Open ..... .84"
1400 lines ..... .77"

ABC and SRDS

The Evolution of Two Specialized Advertising Services

¶ The advertising industry generated remarkably prompt responses, at both the institutional and individual level, to the opportunities and problems of growth. Once associationist activities had achieved a measure of industry self-regulation and self-analysis, individual entrepreneurs stepped in to offer specialized services that grew in value as the professional status of the parties concerned became established and differentiated.

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The advertising industry in the United States has long been a major economic factor, not only in terms of its impact upon demand for goods and services, but also in terms of the proportion of national income which is expended annually upon the creation and transmission of advertising messages. To assist purveyors of goods and services in expending the vast sums annually allocated to their advertising efforts, highly specialized

middlemen have evolved, most notably the advertising agencies. As an indication of the complexity of modern industrial society, however, additional specialized services have also developed to assist the middlemen. Some of these services, such as the Audit Bureau of Circulations (ABC) arose through cooperative action by the various interested parties – advertisers, advertising media, and advertising agencies – while others were the creation of individual entrepreneurs who recognized a need, and a corollary opportunity, almost as soon as it came into existence. Among the latter is the Standard Rate and Data Service, Inc. (SRDS), an institution which collects and publishes information essential to the media-buying function. As will be indicated by the following account of the development of these two services, the American economic environment seems to have provided both motivation and opportunity for the introduction of a wide variety of highly specialized service institutions without which the broader forms of economic activity, such as advertising in general, would have great difficulty in functioning. In a broad sense, the most significant aspect of the following account is, then, the demonstration of the remarkable responsiveness of the American economic system to the needs and opportunities of a dynamic economic environment.

The Audit Bureau of Circulations

The primary impetus for the ABC, a nonprofit, cooperative service devoted to the collection and publication of verified statements of media circulation, came from the major advertising agencies of the early 1900's. As has been developed by Ralph M. Hower in his study of the advertising firm of N. W. Ayer & Son, the advertising agency as a species of business enterprise had just emerged from an interesting and pertinent period of evolution.[1] Before reaching the "open-contract" pattern which has characterized agency-client relationships from about 1900 to the present, the business of the advertising agent passed through four recognizable stages or modes of operation: (1) newspaper-agency; (2) space-jobbing; (3) space-wholesaling; (4) advertising-concession-agency; and (5) open-contract or fixed-fee pattern.[2]

The first, or *newspaper-agency* stage, was the type of business inaugurated around 1845 and which is still carried on by "special

[1] Ralph M. Hower, *History of an Advertising Agency* (rev. ed.; Cambridge, 1949), pp. 11–13.
[2] *Ibid.*, p. 13. This statement and the following description of each stage is adapted from this source, pp. 13–14.

representatives" of various advertising media – newspapers, magazines, business papers, radio stations, and television stations. In this phase the newspaper representative or "agency" clearly represented the media, not the advertiser, and took no proprietary risk in the space on whose sale the agency received a commission.

In the second, or *space-jobbing* stage, the newspaper representative sold space to advertisers and then bought space from newspapers to fill his orders. His superior knowledge of available media and of media rates allowed him to assist the advertiser by developing effective advertising schedules at less cost than if the advertiser dealt directly with the media. Then, too, the media profited in that they were spared the expense of direct sales effort. Since the newspaper representative bought and sold on his own account, however, he really represented no interest save his own. Agency practice in this stage was to buy cheap and sell dear, an objective which often caused the representative to recommend lists composed of the newspapers which offered him (the space jobber) the largest discounts rather than lists compiled on the basis of their compatibility with the advertiser's interests.

It was but a short step from the second stage to the third, or *space-wholesaling*, era. This form, which developed around 1865, saw the independent "agent" buy space in both newspapers and magazines in large quantities *in anticipation of* the needs of advertisers and resell it, as needed, in smaller lots. He thus assumed the role of a wholesaler or capitalistic middleman, no longer seeking quick profit in nearly simultaneous buying and selling, but incurring some of the ownership risk previously borne wholly by publishers. Each advertising agent owned space in a group of papers and/or magazines, and his efforts were directed toward inducing advertisers to buy space from this list of media. When a perceptive advertiser objected that a ready-made advertising schedule did not meet the precise needs of his market, the agent would revert to his capacity as space-jobber or broker, buying space in other media to round out the advertiser's program as desired.

Another aspect of this phase was competitive bidding – advertisers would make up lists of newspapers (and schedules of insertions therein) and interested agencies would submit bids on the entire program, the business going to the lowest bidder. At this stage the advertising agency was probably as far removed from today's service-type, fixed-fee arrangement as can be imagined.

About 1867 the idea of wholesaling space in magazines was carried one step further with stage four, the *advertising-concession-*

agency. Carlton and Smith (subsequently the J. Walter Thompson Company) and other advertising agents began to contract annually with periodical publications to take the latter's *entire* advertising space in return for a lump sum. Agents thus acquired the "concession" for advertising in particular media and thereby became even more deeply involved as capitalistic entrepreneurs.

In the latter three forms — *space-jobbing*, *space-wholesaling* and *advertising-concession* — the advertising "agent" found his middleman position becoming increasingly complex. Although he encouraged both advertisers and publishers to look to him for advice and assistance, his judgment was biased by his proprietary interest except where he acted merely as a "broker"; and, even there, the prospect of special discounts or secret rebate arrangements was a corrupting influence. As a result of this package of conflicting interests, and the haggling and sub-rosa agreements which the system engendered, advertising came to be regarded with distrust by publishers and advertisers alike.[3] In spite of his misleading title, it was clear that the advertising agent represented no interest save his own.

The parties directly affected by this chaotic condition in advertising were, of course, the publishers, the advertisers, and the agencies. By the middle 1870's, some advertising agents were sufficiently disturbed by their ambiguous position and by the disrepute into which their young profession had fallen to seek a clarification of their relationship with publishers and advertisers. First G. P. Rowell and then N. W. Ayer & Son experimented with arrangements whereby they guaranteed to place an advertiser's schedule at cost plus a fixed percentage of the billing (Rowell) [4] or for a fixed annual retainer (Ayer).[5]

As early as 1889 the efforts of Ayer & Son, Rowell, and others to stabilize agency compensation received considerable support from the American Newspaper Publishers Association, which compiled a list of the agencies it would officially "approve," i.e., to which commissions (or discounts) would be granted.[6] The efforts of this Association to regularize agency commissions and thus "put an end to the demoralization of their own rates" [7] were further advanced in 1894, when resolutions were passed against allowing an agency commission to advertisers or their employees. The ultimate

[3] *Ibid.*, pp. 52–53.
[4] Frank Presbrey, *The History and Development of Advertising* (New York, 1929), pp. 268, 271.
[5] Hower, *History of an Advertising Agency*, pp. 233–234.
[6] *Ibid.*, p. 404.
[7] *Ibid.*

step along this path was taken in 1901 by a prominent publisher, the Curtis Publishing Company. Curtis, by a unilateral action without precedent in its boldness and implications for advertising, put into effect a contract by which it bound agents not to cut rates, under penalty of losing the commission, and bound itself not to allow the agent's commission to any advertiser, directly or indirectly.

In explaining the action taken by Curtis and other publishers to stabilize agency commissions, two reasons are often advanced: (1) agencies would presumably be selected on the basis of the quality of their performance, and advertisers would benefit from the superior advertising programs that presumably would result; and (2) publishers would also benefit because advertisers would find their programs more successful and would consequently be inclined to allocate larger budgets to this form of sales promotion. While these presumptions may be largely true, it also seems reasonable to suppose that, to the extent that agencies were relieved of the necessity of haggling with clients over commission charges or discounts, publishers were relieved of the necessity of arguing with either agencies or their clients over space rates. In other words, publishers had found it hard to adhere to published or "list" rates as long as agencies were obliged to bargain with clients over the amount of the commission to be charged. Similarly, to the extent that agencies could free themselves of price pressure from clients, publishers could expect to be relieved of agency pressure for similar concessions. It seems reasonable to suppose, therefore, that a basic consideration in the movement by publishers to channel the sale of advertising space through advertising agencies using "open-contract" or "fixed-fee" arrangements was the desire of the publishers to stabilize their own rates.

For all these reasons, the action of the Curtis Publishing Company in 1901 was a milestone in the popularization of the "open contract," i.e., the strange arrangement under which the agency serves the advertiser but the publisher (or media owner) fixes the amount of the agency commission. The same policy with respect to agency compensation has since been adopted by the owners of both outdoor and broadcast advertising media. The *American Newspaper Publishers' Association*, the *Periodical Publishers' Association*, the *National Association of Broadcasters*, and similar organizations of media owners have established general standards which agencies are expected to meet in order to obtain the recognition

which entitles them to receive commissions. The usual stipulations are that the agency should have a satisfactory financial condition, should be independent and impartial with regard to both media and clients, *should not give rebates* or *otherwise discount the rates established by media owners*, and should be technically competent to provide the advertising service which advertisers need.

While publishers were thus working to bring about a more satisfactory pattern of business conduct in relation to agencies and advertisers, both of the latter groups were also at work. With a nucleus of a dozen national advertisers, the *American Advertisers' Association* was organized in 1899 and was active as "the watchman of the advertisers' rights and privileges," [8] particularly in respect to urging greater accuracy in publishers' circulation statements. "Make every dollar spent in advertising bring back greater returns" [9] was the slogan of yet another group, the *Association of National Advertisers*, which was organized in 1910.

A third group at interest, the general advertising agencies, became organized on a national scale in 1916 with the *Affiliated Associations of Advertising Agencies*, a composite of regional advertising agency clubs. In 1917, this organization became the *American Association of Advertising Agencies*, or *"4 A's."* [10] Announced aims of this organization were:

1. To foster, strengthen, and improve the advertising agency business.
2. To advance the cause of advertising as a whole.
3. To give service to members — to do things for them which they cannot do for themselves or which can be done better or less expensively through the Association.

In pursuit of these goals, the *4 A* organization developed "agency service standards" (1918); standard forms for publisher rate cards (1919); "qualifications for membership" (1920), designed to insure that constituent agencies maintain high standards of technical competence, financial reliability, and ethical conduct; and "standards of practice" (1924), designed to eliminate "unfair" modes of competition.

A rather exclusive organization, the *4 A's* initial membership of 111 agencies comprised only about 10 per cent of the agencies existing around 1917.[11] This proportion has continued, with the 1956 membership being 323 as compared to some 3,268 advertising agen-

[8] Presbrey, *The History and Development of Advertising*, p. 544.
[9] *Ibid.*, p. 545.
[10] Newcomb Cleveland, "Agency Association Progress in the United States," *The Advertising Yearbook for 1924*, John Clyde Oswald, ed. (New York, 1925), pp. 92–93.
[11] *Crain's Market Data Book and Directory, 1923* (Chicago, 1924), p. 5.

cies having a regular payroll.[12] Although "size" is not a prerequisite to membership, it is significant that in 1957 the Association estimated that its member agencies placed well over two thirds of the national advertising volume.

The first national merger of publishers, advertisers, and general agents culminated in 1905 in the *AAC of A* (Associated Advertising Clubs of America, now known as the Advertising Federation of America).[13] It soon became apparent to the officers of the new organization that the principal threat to advertising as a social force was the prevalence of hypocrisy and deceit, extending from deliberate misrepresentation of circulation on the one hand to immoral advertising appeals and fraudulent misrepresentations of products on the other. In the public's mind, all the participants – advertiser, agency, and publisher – were tarred with the same brush. Though many individual advertisers, agents, and publishers had taken firm stands against these unsavory practices, no concerted action had yet been taken when the *AAC of A* was formed in 1905. At each succeeding annual meeting of the Association, the same problems of unethical conduct arose with increasing urgency – largely because numerous exposé-type articles were rapidly making dishonesty in advertising a public issue.[14]

As the crusading spirit for truth in advertising mounted, practical-minded men sought means of giving the campaign the support of law. Such a man was John Irving Romer of the advertising journal, *Printers' Ink*. Covering the 1911 convention of the *AAC of A*, he was caught up by the spirit of the convention; and, when he returned to New York, he retained Harry D. Nims, of the New York bar, to investigate the existing laws against fraudulent representations and to draft a model law which would effectively deter false and misleading advertising. At that time only two states of the Union, New York and Massachusetts, had laws designed for this specific purpose, and, as there was only one successful prosecution on record, even they seemed inadequate.[15] In November, 1911, *Printers' Ink* published Romer's proposed model statute and recommended that the *AAC of A* support its enactment in the several states. Romer also proposed that each of the associated clubs organize vigilance committees for the purpose of investigating misrepresentations alleged to exist in the advertising originating in their cities and to cooperate with local

[12] Printers' Ink Supplement, *Advertisers' Guide to Marketing for 1957* (New York; August, 1956), p. 114.
[13] *The Advertising Yearbook for 1924*, p. 470.
[14] H. J. Kenner, *The Fight for Truth in Advertising* (New York, 1936), pp. 13–14.
[15] *Ibid.*, p. 27.

law-enforcing agencies in correcting false advertising practices. The *Printers' Ink Model Statute*, subsequently widely adopted in the United States, reads: [16]

> **Any person, firm, corporation, or association who, with intent to sell or in any wise dispose of merchandise, securities, service, or anything offered by such person, firm, corporation, or association, directly or indirectly, to the public for sale or distribution, or with intent to increase the consumption thereof, or to induce the public in any manner to enter into any obligation relating thereto, or to acquire title thereto, or an interest therein, makes, publishes, disseminates, circulates, or places before the public, or causes, directly or indirectly, to be made, published, disseminated, circulated, or placed before the public, in this state, in a newspaper or other publication, or in the form of a book, notice, handbill, poster, bill, circular, pamphlet, or letter, or in any other way, an advertisement of any sort regarding merchandise, securities, service, or anything so offered to the public, which advertisement contains any assertion, representation or statement of fact which is untrue, deceptive or misleading, shall be guilty of a misdemeanor.**

The first vigilance committee was formed by the Advertising Club of New York City a month later, and within six months a considerable number of prosecutions had been initiated.[17] Advertising clubs in other cities quickly followed suit and at the annual convention of the *AAC of A* in December, 1912, many examples of successful action were reported. These reports show that, once begun, the efforts of the vigilance committee went forward at a rapid pace and were conducted with true missionary zeal.[18]

Numerous titles, such as "Vigilance Bureau," "Censor Committee," etc., were used until 1916 when Arthur M. Sheldon is reputed to have coined the name "Better Business Bureau."[19] More truly reflective of the broad nature of the program to combat dishonesty in advertising than the earlier variations, the new name as well as the work initiated by the National Vigilance Committee of the *AAC of A* quickly spread and within a few more years most major cities had Better Business Bureaus established on a paid-manager basis. But "Truth in Advertising," by now the motto of the *AAC of A*, meant more than the policing of advertisements; rates, circulation figures, and other information essential to objective evaluation of alternative advertising media were still subject to much the same kind of distortion that had stimulated the creation of the *Printers' Ink Model Statute* and the vigilance committees. At the next meeting of the

[16] *Ibid.*, pp. 27–28.
[17] *Ibid.*, p. 31.
[18] See *Eighth Annual Convention of the Associated Advertising Clubs of America* (Dallas, 1912), p. 134.
[19] Kenner, *The Fight for Truth in Advertising*, p. 61.

AAC of A (December, 1913), a resounding declaration of principle endorsing truth in all business dealings was passed. The keystone pledge of this new statement was: [20]

> **We believe in truth, not only in the printed word, but in every phase of business connected with the creation, publication and dissemination of advertising.**

The statement then proceeded to apply the principle of "Truth in Business" to the critical problem of establishing accurate and readily comparable statements of circulation: [21]

> **We believe that the present chaotic multiplicity of methods of arriving at verification of circulation statements are not only confusing but inadequate, and that the time for radical revision of these methods and for standardization of statements is the present.**
>
> **We believe in cooperation with other agencies now at work on this problem, especially in the plan of the central bureau of verification which has already been initiated by some of the organizations represented in this commission, and request the executive committee to proceed therewith.**

The foregoing reference to "The central bureau of verification" was in anticipation of the merger of the Bureau of Verified Audits (New York) and the Advertising Audit Association (Chicago).[22] Both auditing organizations had been formed in the spring of 1913, the New York group under the leadership of O. C. Harn, then advertising manager for the National Lead Company, and the Chicago group led by Stanley F. Clague, then president of the Western Advertising Agents Association. The resultant organization became the Audit Bureau of Circulations (ABC) at Chicago in May, 1914, by a convention representing 74 national advertisers, 49 advertising agencies, 338 newspapers, 27 magazines, 52 farm publications, and 55 business papers.[23] A board of directors of 21 members was authorized with the following composition: 11 advertisers, 2 advertising agents, 2 newspaper publishers, 2 magazine publishers, 2 farm publication publishers, and 2 business paper publishers. Standard circulation statements and audit forms were soon agreed upon, and information blanks were sent to publisher members on July 29, 1914. Auditing commenced September 21, 1914, and the first annual report of the ABC (June 15, 1915) declared that 321 audits had been completed

[20] *Ibid.*, p. 274.
[21] *Ibid.*
[22] For details of this merger and of the underlying organizations, see: William H. Boyenton, *Audit Bureau of Circulations* (Chicago, 1949); Presbrey, *The History and Development of Advertising;* Hower, *The History of an Advertising Agency.*
[23] Boyenton, *Audit Bureau of Circulations*, pp. 8 f.

and 63 were in progress. The subsequent expansion of membership and the composition of the membership in 1957 follow: [24]

ABC Membership: United States and Canada

1914	(Charter Membership List) . . .	499
1919	. . . . .	1,221
1924	. . . . .	1,780
1929	. . . . .	1,981
1934	. . . . .	1,722
1939	. . . . .	2,006
1944	. . . . .	2,326
1948	. . . . .	3,232
1957	. . . . .	3,859

Composition of ABC Membership: United States and Canada: 1957

Division	Per Cent
National Advertisers	20
Local Advertisers	1
Advertising Agencies	7
Associate Members	1
Publishers	71
Total	100

The leaders of the merged organizations, O. C. Harn and Stanley Clague, continued as the outstanding personalities of ABC – Harn as president (1920–1930) and Clague as managing director (1920–1927).

It would be difficult to overestimate the significance of the ABC to advertising as a profession and as a social influence. Frank Presbrey, writing in 1929, said: [25]

> **From ascertaining merely the net paid circulation of the newspaper or periodical, the audit of the ABC has developed into a detailed analysis which gives the geographical distribution, the character of the circulation as indicated by various methods used in obtaining it, the number in arrears, and, in the case of business papers, the occupation of subscribers.**

[24] *Ibid.*, pp. 11–12.
[25] Presbrey, *The History and Development of Advertising*, p. 550.

Constant enlargement of scope is furnishing additional information on the character of circulation and providing further means for judging its quality.

Organization of the Audit Bureau of Circulations was an epoch-making event. The ABC has been a chief contributory factor in stabilizing advertising. Membership is almost obligatory on a publication because advertising agents and advertisers have learned by experience that a publication which will not submit an audited statement of its circulation seldom is worthy of consideration.

With the ABC launched, the "Truth in Advertising" campaign being promoted by vigilance committees in major cities throughout the United States and Canada, and the *Printers' Ink Model Statute* becoming a reality in many states, the 1914 convention of the *AAC of A* turned its attention to formulating standards of practice for advertisers and publishers. Among the resolutions adopted were several bearing on advertising rates and rate information.

The magazine publishers, for example, committed themselves "to maintain an absolute uniformity of advertising rates" which were charged to advertisers and advertising agents while the newspaper publishers promised "to maintain uniform rates, according to classifications, and to present those rates as far as possible, in a uniform card."[26] As already noted, achievement of the latter objective, standardized rate cards, received further impetus in 1919 when the *4 A's* adopted model rate cards (Exhibit 1) and aggressively urged their use by publishers.

Thus, with newspaper advertising rates fairly well in keeping with rate-card listings,[27] magazine rates quite consistent, a source of accurate circulation data in existence, and some uniformity of rate cards being achieved, the time was ripe for a service such as the present SRDS to evolve. In retrospect, two existing types of organizations appear likely to have recognized the opportunity and to have instituted a comprehensive rate and data service. The first of these was the ABC itself. Since this cooperative organization was in the process of collecting circulation and related information from member publishers, it might logically have extended its scope of operations. But, if the ABC (or a similar joint effort of advertisers, agencies, and publishers) did not exploit the opportunity, then one of the several current publishers of newspaper directories might have been expected to expand and modify its editorial coverage.

A review of the convention literature of the *AAC of A* for the

[26] Kenner, *The Fight for Truth in Advertising*, p. 277.
[27] Interview of E. Ross Gamble, treasurer, Leo Burnett Advertising Agency, April 29, 1958.

EXHIBIT 1

THE FIRST "STANDARD RATE CARD" OF THE WASHINGTON, D. C.

Evening and Sunday Star

ISSUED Nov. 15, 1918

Washington, D. C.

The Evening and Sunday Star

Published Evenings and Sunday Mornings

Rate Card No. 1
Issued Nov. 15, 1918
In Effect Jan. 1, 1919

1—GENERAL DISPLAY—FLAT RATE
No Time or Space Discount

The Evening Star • 17c a line
The Sunday Star • 13c a line

Pianogravure Picture Section—25c a line.
(See Special rate Card.)

PREFERRED POSITIONS

When available—top of column next to reading matter 7½c. per line additional; next to and following reading matter 5c. per line additional; next to reading matter 2½c. per line additional. No position advertisements accepted less than 28 lines, single column.

Advertisements will be accepted when space is available, to run on page 2, or 3 at 5c per line additional; pages 4 or 5, 2½c per line additional, and on last page 50% additional to advertising rates.

BROKEN COLUMNS: No extra charge for broken columns. Double-column advertisements must not be less than 42 lines deep; 3 columns, 75 lines deep; 4 columns, 100 lines deep; 5 columns, 125 lines deep; 6 columns or more, 150 lines deep.

2—CLASSIFICATIONS

Classified Advertisements such as Agents, Salesmen, Help Wanted, Business Opportunities, etc., 3 cents a word each insertion, 15 words minimum charge.

Resorts, Educational Steamships, Real Estate, etc

RATE PER LINE (4 lines min.)
1 time, 17c; 3 times, 14c; 7 times, 12c; 14 times or more, 11c; 1 month, 30 times consecutively, 10½c; 3 months, 60 times consecutively, 10c.

(Display Advertising at Display Rates)

3—READING NOTICES *Per Agate Line*

Reading notices in body type..... $1.00
Reading notices in agate type..... .60
No readers accepted for first page.

Imitation reading matter within a border—25c a line.
(All reading notices must be marked "Advertisement.")

4—COMMISSION AND CASH DISCOUNT

Agency Commission, 12 per cent. Cash discount, 3 per cent. Cash discount date, 20th of month following insertion.
All transient advertisements cash.

5—MECHANICAL REQUIREMENTS

Width of column—12½ emspica. Depth of column—305 lines, 21¾ inches. Eight columns to the page.

Basis of measurement is solid agate—14 lines to the inch. Display ads must occupy not less than 14 lines—1 inch.

Can use mats.
Half-tone screens required, 65.

6—CIRCULATION

A Member of the A. B. C.

Date of Statement _____

For Period Ending 6 month ending *Sept. 30, 1918*

Circulation *Daily, 96,911* *Sunday, 74,350*

7—MISCELLANEOUS

Advertising subject to approval.
Established 1852.
Subscription Price—Daily, 2c per copy, $6.00 year.
Sunday, 5c per copy, 2.40 year.

Evening Star Newspaper Co., Publishers.
Frank B. Noyes, President.
Fleming Newbold, Business Manager.
New York Representative, Dan A. Carroll, Tribune Bldg.
Chicago Representative, J. E. Lutz, First Nat'l Bank Bldg.

(Prepared in conformity with "Standard Rate Card" of American Association of Advertising Agents)

Reproduced from Jason Rogers, *Building Newspaper Advertising* (New York, 1919), p. 96c.

critical years 1914–1919 reveals no interest in having the ABC or a similar jointly sponsored body perform this service. This inaction may have resulted from a failure to perceive the need for cooperative effort in the area of media rates and data. A more likely explanation, however, is that the conflicting interests of some 15 to 20 existing media directories, most of them "annuals" and all of them connected

with advertising agencies, posed a formidable obstacle to any plan which would almost certainly eliminate their *raison d'etre*. Since these media directories are in a very real sense the progenitors of both the ABC and SRDS, their development up to 1919 is of considerable import to this study.

The Rise and Fall of Media Directories 1856–1919

Typical characteristics of the score or more media directories published in the United States between 1856 and 1919 were: annual publication; uniform failure to obtain a substantial degree of media cooperation in respect to accurate and consistent circulation data; intimate connection with an advertising agency; and a reputation with media publishers for soliciting advertising with the threat, express or implied, that an agency's advertising would be placed elsewhere if the publisher did not purchase space in the directory.

Probably the first national media directory was *The Newspaper Record*, compiled and published by Lay and Brother, manufacturers of *Printers' Ink*, Philadelphia, 1856. The publication purported to contain ". . . a complete list of newspapers and periodicals in the United States, Canadas, and Great Britain, together with a sketch of the origin and progress of printing with some facts about newspapers in Europe and America, by W. T. Coggeshall, State Librarian of Ohio." The publisher noted: [28]

> Nearly four years since, we commenced, in this city, the publication of *The Ink Fountain*, a quarterly newspaper, devoted to the interests of printers, and intended to be a medium of communication between the manufacturer of printers' materials and the consumer. Our effort was appreciated, particularly by the newspaper press, and our exchange list became large and valuable. We then began to issue in its columns, in succeeding numbers, a list of newspapers, such as came within our ken, and as this grew and became known, it was much sought after, because it was the only list in this country that approached correctness. Urged by the demand, we determined to put this list into book form, and for some months, have been taking measures to arrange a complete list of newspapers in the United States and Canadas. By many representatives of the press, we have met with encouragement and assistance, and to such, we render our earnest thanks, but, in many more instances, a contemptuous silence was our only reply to inquiries.

The "contemptuous silence" came as a bitter disappointment and forced an alteration in plans: [29]

[28] Lay and Brother, *The Newspaper Record* (Philadelphia, 1856), p. ix.
[29] *Ibid.*, p. x.

The original plan was to give the name of every newspaper, its editor and proprietor, politics, period of issue, circulation, age, and any interesting information that might reach us, but after a stubborn trial of all the means in our power we were at length compelled to alter the original idea and give simply the name of periodicals and place of issue.

The Index to Advertisements indicates that *The Newspaper Record* was intended primarily as a means of promoting the sale of printers' supplies and that its distribution was mainly among newspaper publishers. Two pioneer advertising agencies, Geo. A. Crofut and S. M. Pettengill and Co., also ran advertisements, the copy of which carried an appeal to newspapers to appoint them as agents in New York and Boston. There is no suggestion that Lay and Brother intended the *Record* as a continuing publication, any such notion probably having been dispelled by the lack of cooperation just noted.

Another early effort at collecting media information was *The American Newspaper Directory*, compiled by Daniel J. Kenny.[30] It, too, suffered from a paucity of information, giving only the location, frequency, subscription price, and publication office of the media. Interestingly enough, the media advertisements which it carried stressed editorial content and subscription price; nowhere in the book was there any information intended specifically for one interested in placing advertising. Like the preceding directory, this publication does not appear to have been repeated on a regular basis. No other efforts at directory publication seem to have occurred until 1869, when *Rowell's American Newspaper Directory* appeared. (See Exhibit 2.)

Rowell's publication was apparently the first directory to be designed as a service to advertisers and the first to be published on a regular basis – it continued as an annual or as a quarterly (as a quarterly from January, 1878, to October, 1879, and from June, 1897, to December, 1901; otherwise as an annual) under the same name until 1908, when it merged with another directory, *The American Newspaper Annual*, published by N. W. Ayer & Son since 1883. The consolidated directory was continued with the title *American Newspaper Annual & Directory* (now *N. W. Ayer & Son's Directory of Newspapers & Periodicals*).

Rowell's account of his difficulty in obtaining accurate media information and the motives for compiling and publishing his directory is contained in the Preface to the first edition (1869). It indicates that this, like the two previous efforts, was largely unsuccessful in

[30] Daniel J. Kenny, *The American Newspaper Directory* (New York, 1861).

EXHIBIT 2

TITLE PAGE OF THE FIRST ISSUE OF GEO. P. ROWELL'S

American Newspaper Directory (1869)

GEO. P. ROWELL & CO'S

AMERICAN

NEWSPAPER DIRECTORY,

CONTAINING

ACCURATE LISTS OF ALL THE NEWSPAPERS AND PERIODICALS PUBLISHED IN THE UNITED STATES AND TERRITORIES, AND THE DOMINION OF CANADA, AND BRITISH COLONIES OF NORTH AMERICA;

TOGETHER WITH

A DESCRIPTION OF THE TOWNS AND CITIES IN WHICH THEY ARE PUBLISHED.

New York:

GEO. P. ROWELL & CO., Publishers & Newspaper Advertising Agents,

40 PARK ROW.

1869.

Reproduced from Geo. P. Rowell & Co., *American Newspaper Directory* (New York, 1869), Title Page.

obtaining the cooperation of newspaper publishers. In addition, the Preface provides a valuable commentary on advertising conditions and practices of the day, the "service" character of the Rowell agency, and the missionary zeal of its founder. These were all aspects of the special quality which had assisted Rowell's agency to grow to such prominence since its founding only four years earlier; i.e., its founder's concept of agency responsibility to advertisers.

The Rowell *Directory* was intended as an annual supplement to another Rowell publication, *The Advertisers' Gazette*. Initiated by Rowell in November, 1866, as a monthly publication, each issue of the *Gazette* had contained a list of newspapers for a different geographic section of the United States "until every state had appeared, together with new newspapers, consolidations, suspensions, changes, removals, etc."[31] These lists, afterward printed in pamphlet form, "secured a large sale among advertisers, and obtained no little notoriety."[32] The latter arose from the fact that, until this time, newspaper agents had considered their "lists" part of their stock in trade, something to be guarded carefully and not to be shared with the advertiser.[33]

The lists in Rowell's *Gazette* gave only the media name and the place of publication, however, and there proved to be a strong demand for further information. Encouraged by the response, Rowell distributed more than 5,000 information blanks to publishers "with a particular request that they be filled out and returned, in order that their papers might be properly presented in the forthcoming directory,"[34] but less than 500 replies were received. Rowell next placed the task in the hands of a full-time editor, the eventual result of whose labors was in the 1869 *Directory*.

The 1869 *Directory* consists of a listing of publications, classified by place of origin, together with "a description of the towns and cities in which they are published."[35] Media information included frequency of publication, page size, subscription price, date of establishment, editor, publisher, office address, and, perhaps most important of all, "claimed" circulation. The distress of the agents at having Rowell publish a complete newspaper directory was, for reasons that have been noted, rather great. This was as nothing, however, compared to the anguish of publishers:[36]

[31] George P. Rowell, *American Newspaper Directory* (New York, 1869), Preface.
[32] *Ibid.*
[33] Presbrey, *The History and Development of Advertising*, p. 275.
[34] *Ibid.*
[35] *Ibid.*
[36] *Ibid.*

But criticism from agents was a wee small sound compared with the thunder of denunciation that came from newspapers that found their circulation ratings in the directory were much below their own claims. With each annual republication of the directory through the years there was a new storm of violent dissent from newspaper publishers.

Beginning with the 1870 quarterly issues, publishers were encouraged to supplement the brief standard listings, at a fee, and such material was italicized to distinguish it from the editorial matter. In addition, publishers' advertisements were solicited and, judging from the fact that even the first volume (1869) carried 130 pages of such advertising as opposed to 222 pages of editorial matter, Rowell's *Directory* was an immediate financial success. The 1870 *Directory* was supplemented by the *American Newspaper Rate-Book*, "containing advertising rates of leading newspapers arranged with an index for the convenience of advertisers."[37] Actually, this was not a rate book in the present sense, for the rate information was entirely contained in advertisements. The *Rate-Book* was subsequently combined with the *Directory*, and by 1873, the volume of media advertising had grown to 332 pages (as compared to 264 pages of editorial matter). It is of interest that, during most of its existence, the *Directory* adhered to this scheme of providing rate information only through paid advertisements.

Other service features which were added as the *Directory* developed were state market maps, census data, the placement of publishers' advertisements adjacent to specific listings, and an indication of the "quality" of the circulation. (See Exhibit 3.) The latter feature was introduced in 1889 and was purported to designate papers "which circulate among a prosperous class, possess a high proportion of paid-up subscribers . . . [and have] a long-established hold upon the community,"[38] the combination of which attributes cause advertisers to "value this paper more for the class and quality of its circulation than for the mere number of copies printed."[39] Papers which met the *Directory's* quality criteria were designated by a "bull's eye" (⊙). This and similar efforts to obtain and appraise circulation data continued during the entire 40 years of the *Directory's* publications and, from the beginning, incurred publisher hostility which made it difficult to solicit advertising. Illustrative of the problems confronting the *Directory's* editors is this correspondence with Rowell's advertising manager for the 1898 issue:[40]

[37] Rowell, *American Newspaper Rate-Book*, 1870, Frontispiece.
[38] Rowell, *American Newspaper Directory*, 1898, p. 9.
[39] *Ibid.*
[40] *Ibid.*, p. 1342.

EXHIBIT 3

CIRCULATION VERIFICATION BEFORE ABC

Those buying advertising space in The Milwaukee Journal at 9c. are certainly getting heaping measures of value.

(The basis of 9c. rate: 66,000 net paid)

September net paid circulation of The Milwaukee Journal 84,256

(Not one "war extra" printed during September)

The nine cent charge continues until October 1, 1915, to all advertisers alike; after October 1, 1915, ten cents.

THE MILWAUKEE JOURNAL

O'MARA & ORMSBEE, Inc.
Foreign Advertising Representatives
CHICAGO NEW YORK

10 *Newspaperdom* October 15, 1914

UNINTERRUPTED GROWTH!

Fifth U. S. Post Office Statement—**NET PAID CIRCULATION 56,465**

P. O. STATEMENT No. 1	OCTOBER 1, 1913—ITEM NET PAID 44,752
P. O. STATEMENT No. 2	APRIL 1, 1913—ITEM NET PAID 48,326
P. O. STATEMENT No. 3	OCTOBER 1, 1913—ITEM NET PAID 53,901
P. O. STATEMENT No. 4	APRIL 1, 1914—ITEM NET PAID 51,329
P. O. STATEMENT No. 5	OCTOBER 1, 1914, ITEM NET PAID 56,465

The New Orleans Item

"Nothing Succeeds Like Circulation and SERVICE"

Publishers' sworn statements, Rowell's *Directory*, and United States "Post Office Statements" (certification of number of copies of a given issue received for mailing) were the advertiser's principal means of verifying circulation claims. In the October 15, 1914, issue of *Newspaperdom*, a trade publication, only a few publishers followed the example of *The New Orleans Item*. More typical was the wholly unsubstantiated circulation claim made for the *Milwaukee Journal* by its agents.

The manager of the *Telegraph* (*Daily Telegraph*, Nashua, N.H.) wrote again to the advertising manager of *The American Newspaper Directory* thus:

"I would like to know what rating you are going to give us in the December edition of the *American Newspaper Directory*. We informed you that our circulation was 3,200 daily and 1,800 weekly, and I see you have given us an 'I' rating (exceeding 1,000 circulation). I can see no reason why you should not give us the 'H' rating (exceeding 2,250 circulation). Now, if we cannot have a just rating in the *Directory*, it will not be of any advantage to us to place an ad in the same. I want to know what you propose to do about it, and I want it in black and white. . . . If we are not to have a just rating, I will cancel all consideration that I have made with you in this matter."

At the same time that the *Directory's* editors were endeavoring to improve the quality of the information which it carried, the *Directory's* advertising volume was steadily declining. By 1898, the major metropolitan newspapers, formerly the principal advertisers, had withdrawn "en masse," in what seems to have been a virtual boycott. It seems probable that this abandonment of the *Directory* was the result of Rowell's missionary zeal in seeking to report accurate circulation data and to "rate" publications according to the "quality" standards just noted. Withdrawal of advertisements was a serious matter for the *Directory*, not only because of the advertising revenue forgone, but also because the supplementary media and market information carried in the advertisements, especially advertising rates, were lost to subscribers and probably resulted in a declining subscription list. In spite of these difficulties, however, the *Directory* survived for nearly 40 years, and there is little doubt that Rowell's pioneer efforts to provide advertisers with media market information, circulation, and appraisals of "quality" constituted a tremendous contribution to the advertising profession and, albeit somewhat less directly, to publishers of advertising media.

The *Directory* was not Rowell's only pioneer contribution to advertising publication, however. As already noted, the agency had begun to publish *The Advertisers' Gazette*, prior to 1869,[41]

an advertising sheet . . . devoted to information of interest to advertisers; containing the experience of successful advertisers, together with hints and instructions which will enable inexperienced persons to avoid expenditures which will not prove remunerative; also, a catalogue of newspapers which are especially recommended to advertisers as giving the greatest circulation, value and influence in proportion to the prices charged.

Rowell also published *The American Newspaper Reporter and*

[41] Rowell, *The Advertisers' Gazette*, 1873, p. 159.

Printers' Gazette (1871–c1888), a weekly house organ distributed to over 7,000 publishers and printers,[42] and *The Reporter*. The latter was succeeded by *Printers' Ink* (1888),[43] a journal devoted to the advancement of the "Art of Advertising" and addressed to "Advertisers, and not newspapermen."[44] The new journal quickly became the outstanding trade publication in the advertising field, and did much to raise the status of advertising,[45]

> **". . . [*Printers' Ink*] constitutes the largest single influence for betterment of methods and the spread of information on every phase of advertising. . . . *Printers' Ink* is George P. Rowell's monument. . . .**

If imitation is the surest proof of success, then Rowell's 1869 *Directory* must indeed be judged to have scored a "bull's-eye." The first such recognition came within a year with the *Advertiser's Hand-Book*, a publication of Rowell's principal rival, S. M. Pettengill and Co., Newspaper Advertising Agents, New York (founded in 1849). Other agencies to follow suit included C. A. Cook & Co., Chicago (*United States Newspaper Directory*, 1876–c1895); N. W. Ayer & Son, Philadelphia (*American Newspaper Annual*, 1880–1908, *American Newspaper Annual & Directory*, 1909–); Lord & Thomas, New York (*Pocket Directory of the American Press*, 1886–c1920); Charles H. Fuller Company, Chicago (*Advertisers' Directory of Leading Publications*, 1890–c1920); H. W. Kastor & Sons, St. Louis and Chicago (*Kastor's Newspaper & Magazine Directory*, 1895–1930); and Mahin Advertising Agency, Chicago (*Mahin's Advertising Data Book*, 1900–1917).

Early directories in other English-speaking countries are *The Newspaper Press Directory and Advertisers' Guide*, 1846– (Benn Brothers, Limited, London, England) and *Lydiatt's Book*, 1914–1930 (W. A. Lydiatt, Toronto, Canada). *Lydiatt's Book* was outstanding in several respects, and was, in many ways, quite similar to the form of the early SRDS publications. It was independent, i.e., not associated with any advertising agency and, by comparison with its contemporaries, it was exceptionally complete.

All of these directories had a common purpose – to provide information useful in the performance of the media-buying function. They also had a similar format – rates, mechanical data, and market information were organized by states and by population centers within states. The data were usually presented in a form similar

[42] Rowell, *The American Newspaper Reporter and Printers' Gazette*, 1873, p. 148.
[43] Presbrey, *The History and Development of Advertising*, pp. 276, 278.
[44] Rowell, *American Newspaper Directory*, Dec., 1898, p. 687.
[45] Presbrey, *The History and Development of Advertising*, p. 278.

to the conventional newspaper column. A few publications, notably *Lydiatt's*, used a tabular form. The latter facilitated comparison of data for various publications, but was more expensive to set and was less flexible in that it was difficult to vary the amount and type of information supplied.

It is also evident that each publisher was continually searching for additional services which would make his book more popular — supplementary market data, maps, studies of rate trends, and advice regarding the preparation of copy for the printer being among the types of editorial matter included.

As already noted, an important or even critical aspect of these directories was the advertising which they carried. As early as 1873, it will be recalled, Rowell's *Directory* contained 332 full pages of publisher advertising in a book which totaled 596 pages. Much of this advertising had been "purchased" from Rowell's agency by granting that agency rights to advertising space in the purchaser's publication. This practice of exchanging newspaper space for directory space was typical in the United States where all directories from 1869 to 1917 were either directly or indirectly owned and operated by advertising agencies. The typical attitude of publishers toward such directories is suggested by a comment which Jason Rogers (publisher of the New York Globe) made in 1919: [46]

> **The so-called newspaper directory, the first of which to become an important factor being Rowell's (now N. W. Ayer's *American Newspaper Directory*), was a source of annoyance to publishers and a means of graft for the advertising agents. Every year the publishers were urged to take a page in the directories at high rates, this charge to be deducted from business given them.**
>
> **The agents in many cases went so far as openly to state that they would give preference to the papers giving business to their directories. This, of course, caused resentment among the newspapers, which refused to be blackmailed, and advertisers, whose money was spent to feather the agents' nests and not where it would do the advertiser the most good.**

Nor does Rogers' experience as a publisher seem to have caused him to overstate the case against agency directories. Frank Presbrey, himself in the agency business, speaking of earlier advertising practices before the Seventh Annual Convention of the Associated Advertising Clubs of America (1911), said: [47]

> **When the time [for advertising agencies] to settle with the publishers**

[46] Jason Rogers, *Building Newspaper Advertising* (New York, 1919), p. 46.
[47] *Proceedings of the Seventh Annual Convention of the Associated Advertising Clubs of America*, 1911, p. 188.

> **came around, the majority of publishers were lucky if they got much except type, ink, or pages in some newspaper directory.**

It may be noted that Presbrey's reference to agencies paying publishers in type or ink reflects another agency practice that was nearly universal prior to 1900, i.e., the sale of printers' supplies. Some large agencies, such as Rowell and Ayer, even owned manufacturing facilities for type, ink, or other printers' items. Frequently, agencies exerted pressure on publishers to purchase these items or to accept them in lieu of cash payment.[48]

The strength of publishers' feelings toward newspaper directories is also suggested by the fact that the eminently respectable agency of N. W. Ayer & Son entirely eliminated advertising from its directory in 1914 in an effort to avoid criticism.[49] While such drastic action may have been successful in removing the stigma attached to a directory published by an agency (or subsidiary of an agency), it was at the expense of a considerable loss in revenue and could not help but affect the variety and quality of services rendered by the publication.

The foregoing account suggests that agency-sponsored directories of newspapers and periodicals were a prominent aspect of the advertising scene in the United States for nearly a half century following 1869. Also clear is the fact that these sources of media information labored under distinct disadvantages: one was the ubiquitous agency sponsorship which was viewed with a jaundiced eye by publishers, a second was that publishers gave considerably less than full cooperation in respect to requests for circulation statements, advertising rates, and other data essential to the media-buying function. With the advent of the ABC (1914) and with some progress being made toward stabilized advertising rates and standardized rate cards, the stage was set for a new type of service — a service which was not the pawn of some advertising agency or other special interest group, and which could have as its primary objective the provision of complete, timely, and accurate media information to purchasers of advertising space.

The Beginning of Independent Media-Market Services

Less than three years after the inauguration of the ABC, a new type of media-market service, *Barbour's Advertising Rate Sheets*, came into being. Its founder, Justin F. Barbour, had seen the need

[48] Hower, *History of an Advertising Agency*, p. 84; Rowell's *Directory*, 1873, pp. 584, 594.

[49] Hower, *History of an Advertising Agency*, p. 86.

for the service while he was still employed as a space buyer by Husband and Thomas, Chicago: [50]

> **Part of my work involved the use of rate cards. It was here that I first realized the need for complete, up-to-date files. At this time the cards had no uniform arrangement for the information essential to the space buyer. I conceived the idea of a uniform arrangement of information on letter-sized paper that could be filed in a loose-leaf book. To accomplish this, all that was necessary was to gather the rate cards and rearrange the information so that it was standardized.**
>
> **The service started sometime in the latter part of 1916; by 1917 we had organized sufficient information to commence filling the early subscriptions. As we received new rate cards, we added to the scope of our service.**

In addition to the information supplied by the publishers' rate card, Barbour added population data, retail sales, and other quantitative material likely to be of use to the media buyer. Moreover, *Barbour's Rate Sheets* were always "current." Each month, publishers were asked to review a copy of the rate sheet for accuracy, and new copies were sent to all subscribers for placement in the latter's loose-leaf binders as often as changes in rates or other vital data occurred. As a check on the publishers (who sometimes were not at all cooperative), Barbour also arranged to receive notices of rate changes from space buyers in several large advertising agencies.

Beginning with the Newspaper Section, the Service expanded, so that by the end of 1918 it included a Magazine and Farm Paper Section and also a Trade Paper Section. To preserve its independence, no advertising was accepted, subscription revenue being the sole source of income. The cost to subscribers was initially set at $50 semiannually. Barbour's subscribers as of June, 1919, the date that SRDS entered the field, numbered approximately 250, most of them large advertising agencies.

The Founding of Standard Rate and Data Service

The same opportunity which had appealed to Justin F. Barbour also came to the attention of two young men engaged in the advertising business in Detroit and Toledo. They were Walter E. Botthof, Detroit representative of G. Logan Payne Company, a firm which solicited advertising for some 75 newspapers, and Alvin E. Beirnes, space buyer for the Stalker Advertising Company, Toledo, Ohio. Botthof and Beirnes approached the opportunity with dis-

[50] Interview of Justin F. Barbour, Barbour's Investment Service, April 8, 1958.

tinctly different objectives, however. Their idea was to provide the *Standard Rate and Data Service*, a media-information publication which would be priced at $30 a year for 12 monthly issues, a price so reasonable that the *Service* would be subscribed to by virtually every advertising agency in the United States. By thus "saturating" the market, they hoped to attract advertisements from media publishers, and this advertising income would, in turn, assist in making the enterprise profitable in spite of its relatively low subscription price.

In addition to their departure from the Barbour format in respect to advertising policy and price, the new service Botthof and Beirnes envisaged would be published in book form at frequent intervals. This innovation would eliminate the necessity of filing rate sheets, a major problem for subscribers to Barbour's service.

Although the service conceived by Botthof and Beirnes was not identical to that of Barbour, the two were sufficiently similar to create a rivalry. It was to be expected that a struggle for supremacy would ensue. In this struggle, Barbour's had the advantage of priority and an entrenched position with influential agencies. Furthermore, Barbour's subscription list of around 250 in June, 1919, though not large in relation to the potential market (approximately 1,000 advertising agencies plus newspaper representatives, national advertisers, and large publishers), had a record of steady growth, and had been subscribed to by virtually all of the members of the *4 A's* and other leading agencies. While Barbour's company did have certain pressing financial difficulties – it had not yet reached the "break-even" point in its operations – this fact was not known to Botthof and Beirnes at the time that they launched SRDS.

All things considered, then, it was natural for the managements of SRDS and *Barbour's Advertising Rate Sheets* to regard one another with a keen sense of rivalry. Almost from the outset, it seems, their managements felt that the two publications were engaged in a struggle from which only one would survive.

The plans formulated by Botthof and Beirnes were carried out with astounding dispatch and success. The two men began to devote their full attention to the project in February, 1919, and the first edition of SRDS came out just five months later. By December, 1919, SRDS subscribers totaled 600, as opposed to fewer than 250 for *Barbour's*. The latter publication deferred adjusting to the competition of SRDS until the fall of 1922 when Barbour proposed to introduce a low cost book similar to SRDS. By that time subscriptions to the standard *Barbour's* service had declined to about 150,

while those of SRDS had risen to over 1,500. Buffeted by financial difficulties – it had yet to show a profit on its operations – *Barbour's* made a last ditch effort to obtain sufficient financial support to enable it to market its revised service. This effort failed, and *Barbour's Advertising Rate Sheet* was acquired by SRDS for the sum of $25,000 in October, 1922. With the media-information field to themselves, Botthof and Beirnes refrained from raising the subscription price ($30 per annum) of SRDS for nearly two decades thereafter, the meanwhile consistently expanding the scope of media information offered.

As of the early 1920's, then, the basic needs of the advertising industry for accurate and timely media information had largely been met – verified circulation data through the cooperative efforts of the publishers, agencies, and advertisers who established and supported the ABC; rates, mechanical information, and market data by a succession of private enterprises culminating in a single independent service: SRDS. In each instance the essential criteria of reliable information at reasonable cost were being realized.

[7]

Peggy J. Kreshel

The "Culture" of J. Walter Thompson, 1915-1925

For nearly half a century, J. Walter Thompson developed as the vision of Stanley B. Resor who had a strong belief in the potency of "science." His efforts to interject "science" into advertising practice clearly were undertaken with an earnestness of purpose, to improve the efficiency of advertising as a marketing tool. However, that motivation cannot be distinguished in any real sense from Resor's desire to elevate advertising from a trade to a profession. As such, mechanisms implemented to facilitate "scientific research" at the agency at the same time became public relations tools, reinforcing the importance of factual information as the appropriate basis for decision-making, and providing evidence of Thompson's competency to a science-conscious business community. Resor's efforts set the agenda for an attitude toward the advertising profession as a science-based enterprise. That attitude continues to characterize the industry today.

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The professions occupy a position of great importance in America, influencing relationships between individuals and their work, their work and society.[1] The vast body of "professionalization" literature includes ample discussion of the process through which an occupation evolves into a profession, and the attributes which distinguish a profession.[2]

Advertising and public relations have a long history of efforts undertaken to consolidate their respective "professional" images. Between 1915 and 1925, a time when advertising and public relations were undifferentiated, these efforts took a number of forms, including: the formation of local clubs and national associations, the emergence of trade journals, academic programs in universities, and attempts to establish ethical control over the field.[3] The success of these efforts is a point of continuing debate in both public relations and advertising today.

That contemporary debate is not the focus of this paper. Rather, this discussion takes the perspective of sociologist Everett C. Hughes who noted that the fundamental question was not "Is this occupation a profession?" but rather, "What are the circumstances in which people in an occupation attempt to turn it into a profession, and themselves into professional people?"[4]

Drawing largely on J. Walter Thompson archival materials, this paper "looks in" upon the culture of a single advertising agency, the J. Walter Thompson Company, in the period 1915-1925.[5] As a cultural history, the discussion is embedded in the particular historical circumstances in which that agency participated, and is focused upon an interpretation of the thoughts, motivations, common sense, and cultural conventions that constructed the reality of that agency.[6]

Founded in 1864, the J. Walter Thompson company achieved a comfortable financial stature early in its career. For most of the period included here, it was one of the largest, if not *the* largest advertising agency in the world.[7] Perhaps an even more integral component of the Thompson culture, however, was the leadership and philosophical contribution of Stanley B. Resor, who with a group of colleagues purchased the agency in 1916. Throughout the period discussed here, and indeed, for nearly half a century, J. Walter Thompson developed because of Resor's vision, a belief in the potency of "science," a desire to make advertising more "scientific," more efficient, and to elevate advertising from a trade to a profession.

Resor was able to redefine the work of an advertising agency in terms of "scientific research" and marketing, to provide an environment within the agency and the industry which fostered the development of that "scientific" approach, and to "market" Thompson's competency in "scientific" investigation to a business community now routinely pursuing commercially useful "science." Thompson's activities intended to "rationalize" the process of advertising. At the same time, the agency reinforced the importance of "science" as the appropriate basis for decision-making. Over time, the pursuit of "science" took on a life of its own, achieving symbolic proportions. It became increasingly difficult to distinguish the rhetorical from the real, the utility from the symbol. Nonetheless, the agenda was set for an attitude toward the profession as a science-based enterprise, an attitude which continues to characterize the industry today.[8]

Resor's Philosophy

Reflecting the preoccupations of the era, themes of Efficiency, Progress, Science, and Professionalism were intricately interwoven in Stanley Resor's philosophy.[9] Outwardly, that philosophy had two basic components: a belief in the existence of laws of human behavior which could be discovered

through "scientific" investigation, and a redefinition of advertising as a marketing tool. Resor's efforts were driven by a belief that advertising, like law, medicine, and engineering should be regarded as a profession.

According to Resor, advertising was an educational tool which possessed immense marketing, economic and social power, and carried with it particular social responsibilities. This belief in the broad power and dignity of advertising served as the basis for his drive toward attaining recognition as a profession. However, at a more practical level, Resor also realized that the ability of advertising to ultimately attain professional stature was very much dependent upon the opinion that big business had of the soundness of advertising methods, and of the advertising industry's ability to provide solutions to practical problems encountered in business practice.

Resor believed that a profound ignorance of the use of publicity existed within the business community. Despite continued efforts to distance itself from images of Barnum and confidence men, advertising was still viewed by many as "something based on inspiration, immature ideas and snappy slogans."[10] A prospering business community, enjoying public approval and buoyed by numerous "rags-to-riches" success stories, had come to regard advertising with something approaching reverence. Certainly publicity seemed to work, but this was often regarded as something apart from other business activities, as an article largely accepted on faith.[11]

Resor argued that if advertising was to be taken seriously and regarded as a business force, it could no longer be content simply to rest upon the cliche, "It pays to advertise." The advertising industry had to demonstrate its capabilities; its agencies had to assume new responsibilities; and both had to be accepted on merit, rather than on faith. It was imperative that clients come to understand advertising and the role of the agency. Resor, speaking as President of the American Association of Advertising Agencies, articulated the dilemma:

> Because the results of advertising cannot be judged wholly by themselves, but must depend upon the way other phases of the problem are carried out, it is vitally important, if we are to have an opportunity to do good work, that those with whom we co-operate recognize the importance of the work advertising is to do.[12]

The appeal of "science" was strong within the business community. "Science" had wrought technological innovations and striking advances in productivity. Frederick W. Taylor's Scientific Management, fashioned after the hard sciences, introduced concepts of "control" and "efficiency" into production, and suggested the possibility of a "rational" factory of maximum productivity.[13] Yet, the necessity of "creating" a "buying public" was increasingly important to "doing business."[14]

The business community adjusted its focus to the consumption side of the economic equation. Seeking the control and efficiency it had achieved

in production—control and efficiency identified with "science"—business turned once again to experts. In his 1971 history, *Science In America* Daniels noted that "research" was a magic word of the era, and it was "research" that allowed the "expert" to solve problems. "The ideal leader," he wrote, "was a highly trained expert who conducted research on a problem and cranked out decisions like some well-oiled machine."[15]

Resor was very much a part of this business culture. He earnestly believed that the interjection of "science" and "scientific research" would "rationalize" the advertising process, making it a more efficient marketing tool. At the same time, he recognized that because "science" enjoyed extraordinary prestige, it had great legitimizing power. Thus, the interjection of "science" would also serve to further legitimize the value of the advertising function among members of the business community. In speeches, writings, and advertisements, Resor articulated the agency's shared belief in "efficiency," "control," and the pursuit of "science" for useful application.

"Science" and the Laws of Human Behavior

Resor's philosophy regarding advertising was based upon a social theory which he regularly attributed to social historian Henry Thomas Buckle.[16] The theory posited that human progress was governed by laws, and that "people anywhere, at any time, react to the same circumstances and events in the same fashion." Translating this social theory to the particular instance of advertising, Resor wrote:

> Whether in matters of life and death or in buying a pair of shoes, a definite percentage of every hundred thousand people is always acting in response to a special set of conditions.
>
> Whenever one of us goes to the theater or picks a necktie, we are responding to definite laws. For every type of decision—for every sale in retail stores—basic laws govern the actions of people in great masses.[17]

The suggestion that the decisions of people in large groups could be accurately calculated according to fixed laws, and the implication that those decisions could be controlled no doubt had strong appeal to a business community which was becoming more cognizant of the possible benefits of a research approach to business problems. As Resor explained in a trade article, the work of advertising was "to control and guide the conditions that lead people to make decisions."[18]

In the effort to discover those laws of human behavior, "science" most clearly entered advertising practice. Unlike early psychologists who had sought to apply theories of psychology to the study of advertising, Resor professed no particular "scientific theory" about how advertising worked. Instead, he suggested that laws could be discovered only through

investigations which gathered all the essential facts bearing upon a situation, and he located "science" in the process of accumulating those facts. This view of "science" as fact-finding came to define the corporate philosophy of the J. Walter Thompson agency.

Educating Future "Professionals"

Positioning advertising practice among those business activities being newly identified as "public relations" and "marketing," Resor clearly redefined the arena of agency competence and service.[19] Begun as space-buying-and-selling enterprises, agencies had only recently, and often somewhat reluctantly, assumed copywriting responsibilities. From Resor's perspective the work of an agency was that of a "business counselor," and necessarily involved the study of all phases of a client's business.

This new role required a specialized knowledge, which Resor suggested no University could provide.[20] He noted that "before any person can pass judgment on even the simplest phase of an advertising problem, he must have acquired a background in every phase of the work."[21] To provide that background, Thompson established a "University of Advertising." This two-and-a-half- year, in-house training program was designed so that each individual entering the agency would experience every phase of the agency's work, acquiring an appreciation of what it meant to be a "team player." The training program embodied Resor's perception of what advertising should be, and of what an advertising agency should be, that is, a "highly organized factory, composed of many specialized departments."[22] The training program instilled "professionalism" via rigorous preparation, and at the same time served as a visible symbol of Thompson's dedication to effective advertising. One of the most powerful articulations of Resor's "scientific" marketing philosophy was that found in a new-client presentation book:

> Advertising must be scientifically prepared. Nothing must be taken for granted. Neither suitability of the product for advertising, nor the market in which it should be sold, nor the time of year in which it should be advertised, nor the media that should be used, nor the kind of copy or illustration that should be used, nor anything else....all must be determined through patient study and research and investigation.[23]

Given these preoccupations, research became "institutionalized" within the agency as the J. Walter Thompson way of doing business.[24] Certainly these research efforts stood apart from earlier attempts to meld "science" and advertising. Psychologists, in efforts to solidify their status as a "science," had turned to advertising as a field of application around the turn of the century.[25] Their investigations largely advocated the application of "scientific" (that is, psychological) measurement to advertising, and

while admittedly more "scientific" than much of the early research work at Thompson, these studies, largely products of the academic world, were often met with reluctance by members of the advertising and business communities, and were slowly accepted by those practicing advertising.

Juxtaposed with these earlier efforts, the research implemented at Thompson was more closely aligned to what might today be called "market research" and "media research." No longer content simply to study copy appeals, Thompson broadened the definition of "research" to include descriptions of "markets" and identification of "trading areas" using secondary data, evaluations of media audiences, and consumer and trade investigations for strategic decision-making. Often couched in the rhetoric of science, this research did not represent an "advance" in any scientific sense (at least by today's standards), so much as it suggested a broadening of the scope of advertising competency.

"Science" thus located in the process of fact-finding, came to define the activities of the agency. A Statistical and Investigation Department was established in 1915, and a number of mechanisms were implemented within the agency to facilitate data collection.[26]

The Thompson T-Square consisted of five questions which needed to be answered before formulation of marketing plans for any product or service could occur: what are we selling? to whom are we selling? where are we selling? when are we selling? and how are we selling?[27] The answers provided facts about the product, the market, the trade, the organization, and the competition. Despite its apparent simplicity, the T-Square integrated the two principal components of the Resor philosophy: fact-finding, and an expanded view of advertising as one of a number of integrated components of the marketing process.

The actual collection of data was facilitated both by the T-Square Fact Finder, seventy-seven questions which could be asked to obtain the required information, and by a standard Data and Plan Form, "a convenient, comprehensive, and orderly vehicle for all of the salient information affecting the product in question."[28]

The pivotal role of the Thompson T-Square is apparent in the frequency with which references to it appeared in agency publications, and in Resor's speeches and writings.[29] It became a public relations tool, used to promote J. Walter Thompson's "scientific" approach to advertising and marketing problems. The Thompson T-Square, according to the company's promotional literature, was fundamental to the creation of quality advertising because it demanded that "answers be based upon irrefutable evidence of scientifically conducted investigation, tests, enquiries [sic], studies and research."[30] Prospective clients often received a copy of the Data and Plan form with a note suggesting:

> We believe that a careful study of this questionnaire will show that we go into the client's business very systematically and thoroughly—

> that when we had completed this study, we would know your problem very well.[31]

The T-Square "habitualized" the collection of data as essential to the agency's image as an effective decision-maker.

Resor suggested that agencies should be "full-service" agencies. The arena of advertising competency as such included not only space buying and selling, and copywriting, but all facets of a client's business. This placed special burdens upon the advertising "professional:"

> To be really efficient at any phase of the work, people must specialize in that phase, but at the same time, they always have in mind the broad vision of what work, as a whole, is to accomplish and what purpose it serves.[32]

Thompson's training program, the University of Advertising, suggested that advertising involved some "magic circle of knowledge" not accessible to the laity, and legitimated the necessity for such training to clients and to business more generally.[33] In a society that increasingly turned to "experts," the University of Advertising became central to Thompson's "authority." The T-Square, represented the agency's "scientific" approach.

The work of the Statistical and Investigation Department, established in 1915, involved the generation of information through primary investigations. Procedures for the conduct of field investigations to obtain information required by the T- Square were outlined as early as 1919 in an agency document titled "Standard Practice in Conducting Marketing Investigations."[34] Reflecting the market-oriented, image- conscious perspective of the T-Square, interviews included multiple publics—dealers, jobbers and manufacturers as well as consumers, all those "able, willing, and ready to sell" as well as those "able, willing, and ready to buy."[35]

Beyond the Agency Boundaries

Resor, as president of one of the largest advertising agencies in the world, was able to exert substantial "professional" influence beyond his own agency. Certainly Resor's campaign for a scientific basis for advertising and for professional recognition for the industry was amplified through his professional involvements. He was a co-founder of the American Association of Advertising Agencies in 1917. The following year, as head of the National Committee on Agency Service, Resor was involved in developing the standards of advertising agency service for that organization.[36] He was instrumental in the formation of the Audit Bureau of Circulations, the National Outdoor Advertising Bureau, and the Advertising Research Foundation. Each of these efforts was based upon the belief that facts, not guesses should be the foundation of advertising decision-making. The establishment of these professional organizations helped to further rationalize the utility of advertising. At the same time, these activities

helped to legitimate a commercial reality in which decision-making based upon carefully gathered information assumed a prominent role. Fact-finding became a professional characteristic of the advertising industry.

Resor further legitimized the importance of a "scientific" basis for decision making when as president of the American Association of Advertising Agencies (1923-1924), he helped establish a research department under the auspices of that organization. He was largely responsible for attracting Daniel Starch to head the department, the goal of which was to explore problems of "such broad and general significance" that they couldn't be undertaken by individual agencies.[37]

Resor also spread the "doctrine of scientific advertising" in his speeches and writings. In 1925, Resor told a group of Harvard Business School graduates, "it would seem as if only those advertising firms would continue to prosper who are equipped to do work in a scientific manner."[38] Between 1920 and 1925, J. Walter Thompson undertook four major investigations which extended beyond the day-to-day practical activities of meeting client needs.[39] These agency-initiated investigations included efforts to "rationalize" both the tangible problems of advertising practice (market analysis, consumer behavior, media), and the intangible problem of consumer psychology. Taken together, these studies were illustrative of the breadth of definition which "research" had assumed at Thompson.

The studies appear to have become "showpieces" with public relations value for the agency's corporate image. Discussions of the investigations were widely distributed not only through in-house publications, but also among relevant external publics in speeches and writings, and in the agency's house organ the *J. Walter Thompson News Bulletin*. Additionally, the studies were frequently showcased by the agency's institutional advertising, and it was suggested that findings would be made available to interested parties. Dissemination of information about these investigations informed the larger business and advertising communities of Thompson's work, suggested Thompson's competency, and in a sense, became "symbols of authority" and legitimation.[40]

Some contemporary public relations practitioners may think that early research efforts undertaken at J. Walter Thompson reflected a certain naivete regarding scientific methods, and that the rhetoric surrounding the discussions of "research" was often more effective in a public relations context than the research was in an advertising context. Some might also be troubled by the ambiguities regarding definitions of advertising and public relations which surrounded the actual application of the findings generated through research. In a new-client presentation book, Thompson suggested to potential clients that copy was not a matter of "inspiration," but was instead "scientifically determined" according to the needs of the consumer.[41] The power of this statement seems less substantive when it is placed next to Helen Lansdowne Resor's statement that as head of the copy department

she "supplied the feminine point of view." She said, "I watched the advertising to see that the idea, the wording, and the illustration were effective for women."[42] James Webb Young, another Thompson copywriter (and later vice-president), also claimed to have written ads from his own imagination.[43] The distinction between "science" and "intuition" was at best blurred.

Was the conduct of research primarily a "marketing tool" designed to sell Thompson's services? The consistency of Resor's philosophy, and the persistence with which he advocated that philosophy throughout a long career suggest that early research efforts at J. Walter Thompson were undertaken with earnestness of purpose, a sincere effort to improve the efficiency of advertising, and an attempt to make a trade into a profession.

Resor believed in the potency of science. He believed that the world was rational, that problems had solutions, and that those solutions would somehow be revealed in "the cold light of facts." That the investigations, and the mechanisms implemented to facilitate those investigations became "marketing tools," is a reflection not so much of the initial motivation for their conduct, but of Resor's belief in their value as scientific tools.

References

J. Walter Thompson Archives are located in the Perkins Library, Duke University (Durham, North Carolina, 27706).

1 Talcott Parsons, "The Professions and Social Structure," *Social Forces* 17 (May 1939), pp. 457-467.

2 Ibid. In addition, see, e.g., Everett C. Hughes, *Men and Their Work* (Glencoe, IL: Free Press, 1958); Theodore Caplow, *The Sociology of Work* (Minneapolis, MN: University of Minnesota Press, 1954); Ronald M. Pavalko, *Sociology of Occupations and Professions* (Itasca, IL: F.E. Peacock Publishers, 1971); Ernest Greenwood, "Attributes of a Profession," *Social Work* 2 (July 1957), pp. 45-55; Harold L. Wilensky, "The Professionalization of Everyone?" *The American Journal of Sociology* 70 (September 1984), pp. 137-158; Howard M. Vollmer and Donald L. Mills (eds.) *Professionalization* (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1966); and more recently, Nathan O. Natch (ed.), *The Professions in American History* (Notre Dame, IN: University of Indiana Press, 1988). For critical perspectives see Burton J. Bledstein, *The Culture of Professionalism: The Middle Class and the Development of Higher Education in America* (New York: W.W. Norton, 1976); David F. Noble, *America by Design: Science, Technology, and the Rise of Corporate Capitalism* (New York: Knopf, 1977), and Magali Sarfatti Larson, *The Rise of Professionalism: A Sociological Analysis* (Berkeley, CA: University of California Press, 1978).

3 For information on early clubs and associations, see Edward Jackson Baur, "Voluntary Control in the Advertising Industry," (Ph.D. dissertation, University of Chicago, 1942), and Quentin J. Schultze, "Advertising, Science, and Professionalism 1885-1917," (Ph.D. dissertation, University of Illinois at Urbana-Champaign, 1978). Schultze's workalso includes discussions of early advertising education and the

history of the trade press. See as well, Quentin J. Schultze, "'An Honorable Place': The Quest for Professional Advertising Education, 1900-1917," *Business History Review* 56 (Spring 1982), pp. 16-32; and Quentin J. Schultze, "The Trade Press of Advertising: Its Content and Contribution to the Profession," in Richard W. Pollay (ed.) *Information Sources in Advertising History*, (Westport, CN: Greenwood Press, 1979). Two books dealing more generally with education are Laurence Veysey, *The Emergence of the American University* (Chicago: The University of Chicago Press, 1965), and Alexandra Oleson and John Voss (eds.), *The Organization of Knowledge in Modern America, 1860- 1920* (Baltimore: Johns Hopkins University Press, 1979). Much has been written about the Truth-in-Advertising Movement as an effort to counter public criticism by enhancing the honesty of the advertising industry. See, e.g., H. J. Kenner, *The Fight For Truth in Advertising* (New York: Round Table Press, 1936). Kenner was the General Manager of the Better Business Bureau of New York, and this book is considered to be the "official" history. Daniel Pope, in *The Making of Modern Advertising* (New York: Basic Books, Inc., 1983) suggests that when told by advertising practitioners, the story of the development of advertising ethics is "a story of steady movement towards openness and honesty, motivated by the enlightened self-interest of the industry paragons." (p. 184). More recent scholars, however, have suggested somewhat less simplistic, less altruistic motivations of the movement. See, e.g., Stuart Ewen, *Captains of Consciousness, Advertising and the Social Roots of Consumer Culture* (New York: McGraw-Hill Book Company, 1976), p. 71.

4 Hughes is quoted in Howard M. Vollmer and Donald L. Mills (eds.). *Professionalization* (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1966), p. v.

5 This work is drawn from Peggy J. Kreshel, "Toward A Cultural History of Advertising Research: A Case Study of J. Walter Thompson, 1908-1925," (Ph.D. dissertation, University of Illinois at Urbana-Champaign, 1989).

6 James W. Carey discusses the virtues of cultural histories in "The Problem of Journalism History," *Journalism History* 1 (Spring 1974). The symbolic nature of human activity has been widely discussed. An excellent discussion can be found in Peter L. Berger and Thomas Luckmann, *The Social Construction of Reality* (Garden City, NY: Doubleday and Company, Inc., 1966; Anchor Books, 1967).

7 The advertising trade press first began to compute statistics on advertising volume in 1935. Although pre-1935 estimates have been made, "they do not inspire great confidence." Daniel Pope, *The Making of Modern Advertising* (New York: Basic Books, Inc., 1983), p. 22. Pope's discussion of efforts to arrive at such estimates provides a basis for evaluation of their usefulness. See pp. 21-30.

8 For a critical look at advertising research, particularly in the academic setting see Gary Kurzbard, "The Empirical Bias in Advertising Research," in Nancy Stephens (ed.), *The Proceedings of the 1985 Conference of the American Academy of Advertising* (Tempe, AZ: Arizona State University College of Business, 1985), pp. NR175-NR176; and Peggy J. Kreshel, "Expanding the Definition of Advertising Research: Toward a Cultural History of Advertising Research," in Ernest F. Larkin (ed.) *The Proceedings of the 1986 Conference of the American Academy of Advertising* (Norman, OK: School of Journalism, University of Oklahoma, 1986), pp. NR123-NR127.

9 See, e.g., Richard Hofstadter, *The Age of Reform: From Bryan to F.D.R.* (New York: Alfred A. Knopf, 1955); George Mowry, *The Era of Theodore Roosevelt and the Birth of Modern America: 1900-1912* (New York: Harper, 1958); Robert H. Wiebe,

The Search for Order, 1877-1920, The Making of America American Century Series, David Donald, ed., (New York: Hill and Wang, 1967);Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge: Harvard University Press, 1962); and Jean B. Quandt, *From the Small Town to the Great Community, The Social Thought of Progressive Intellectuals* (New Brunswick, NY: Rutgers University Press, 1970).

10 Stanley Resor, "What Do These Changes Mean? Do We Fully Appreciate the Nature of the Job?" Address before the meeting of the Western Council of the American Association of Advertising Agencies, Chicago, 1924. [reprint], p. 4, JWT Archives.

11 Ibid. See also, Percival White, *Advertising Research* (New York: D. Appleton and Company, 1927) and T.J. Jackson Lears, "Some Versions of Fantasy: Toward a Cultural History of American Advertising, 1880-1930," *Prospects* 9 (1984), pp. 349-405.

12 Resor, "What Do These Changes Mean?" p. 12.

13 Frederick W. Taylor, *Shop Management* (New York: Harper and Brothers, 1911); and Frederick W. Taylor, "A Piece-Rate System, Being a Step Toward Partial Solution of the Labor Problem," *Transactions, American Society of Mechanical Engineers* 16 (1985), pp. 856-883.

14 This idea is developed in a number of books at the time, see, e.g., Harry Tipper, Harry L. Hollingworth, George B. Hotchkiss, and Frank A. Parsons, *Advertising: Its Principles and Practice* (New York: The Ronald Press, 1915)); as well as in more recent histories of the period, most notably William Leiss, Stephen Kline, and Sut Jhally, *Social Communication in Advertising* (New York: Metheun, Inc, 1986), and Stuart Ewen, *Captains of Consciousness: Advertising and the Social Roots of Consumer Culture* (New York: McGraw-Hill Book Company, 1976).

15 George H. Daniels, *Science in American Society: A Social History* (New York: Alfred A. Knopf, 1971), pp. 303-304.

16 Henry Thomas Buckle, *The History of Civilization in England* (London and New York: Longmans, Green, 1902).

17 "Do Laws Really Govern Human Action?" *The Fourth Estate* 22 (16 April 1921), [photocopy], JWT Archives.

18 Stanley B. Resor, "How One Big Advertising Agency Trains Its Staff to High Efficiency," *Associated Advertising* (August 1919), p. 9.

19 Robert Bartels, "Influences on the Development of Marketing Thought, 1900-1923," *Journal of Marketing* 16 (July 1951), pp. 1-17. Bartels notes that the increasing concern of businessmen with distributive activities became so widespread near the turn of the century that "between 1902 and 1905, four men, simultaneously and independently in different parts of the country, so crystallized their knowledge of marketing that they began to teach it." (p. 1) See also, Robert Bartels, *The History of Marketing Thought*, 2nd ed. (Columbus, OH: Grid Inc., 1976). Earliest years of study used the words "trade," "commerce," and "distribution," rather than marketing. Bartels wrote that between 1900 and 1910, "Conceptual changes occurred that resulted in the adoption of the term 'marketing' to identify this field." (p. 24).

20 Resor typically spoke of the Thompson training program as a necessity in facilitating a "teamwork" approach to advertising problem solving, and focused upon the merits of the program, rather than upon criticizing alternative means of "educating" employees. The exception to this was a statement in an article titled

"Individual Effort Has Had Its Day," *The Fourth Estate* 22 (5 November 1921), p. 31. There Resor noted:

> ...no university will ever be able to build up a technical school of advertising of its own of any particular value. It will have to learn this fact from bitter experience, judging from the worthless type of studies and books that are coming from the so-called advertising departments of the various colleges today.

It should be noted, however, that this sentiment did not preclude his hiring college graduates from curricula other than advertising; in fact, he took great pride in doing so.

21 Stanley Resor, "How One Big Advertising Agency Trains Its Staff to High Efficiency," p. 64.

22 *JWT News Bulletin*, 17 October 1916, p. 3, JWT Archives. Resor consistently emphasized the teamwork approach which stood in sharp contrast to Taylor's "rationalization" of the factory. Like Taylor, Resor broke the job down into component parts, however, Resor's emphasis was upon the reintegration of those components. Resor noted in "Individual Effort Has Had Its Day:"

> ...in manufacturing, many workers devote their entire time to the production of a single part. They become expert piece workers. It is not necessary that they know the problem involved in the manufacture of other parts not the kind of people who will eventually use the final assembled article. In advertising, no one man can thus work alone. (p. 22)

23 Sam Meek, "New Client Presentation," 1928 [exhibit], n.p., JWT Archives.

24 For a discussion of the concept of "institution," see Edwin R. A. Seligman (ed.), *The Encyclopedia of the Social Sciences*, Vol. 8 (New York: Macmillan, 1932), s.v. "Institution," by Walton H. Hamilton, pp. 84-86.

A number of "research" activities had indeed been a recognized part of advertising practice for some time prior to this. Inquiry testing, that is, the analysis of keyed coupon responses, had been the mainstay of mail-order advertisers who had been testing copy for years. Keyed analysis appears to have been standard day-to-day advertising practice, not only at Thompson, but throughout the industry. See Gordon White, *John Caples: ADMAN* (Chicago: Crain Books, 1977). White discusses a number of "pioneers" in the field of keyed analysis, including E.T. Gundlach, Claude Hopkins, and Carroll Rheinstrom (see pp. 10-18).

25 Discussions of the early development of scientific advertising can be found in: Merle Curti, "The Changing Concept of 'Human Nature' in the Literature of American Advertising," *Business History Review* 41 (Winter 1967), pp. 335-357; David P. Kuna, "The Psychology of Advertising, 1896-1916," (Ph.D. dissertation, University of New Hampshire, 1976); A. Michael McMahon, "An American Courtship: Psychologists and Advertising Theory in the Progressive Era," *American Studies* 13 (Fall 1972), pp. 5-18; and in Schultze, "Advertising, Science, and Professionalism," pp. 92-131. A picture of the types of research being conducted can be obtained from early texts. See, e.g., Henry F. Adams, *Advertising and Its Mental Laws* (New York: Macmillan Co., 1916); Henry L. Hollingworth, *Advertising and Selling* (New York: D. Appleton-Century Co., Inc., 1913); Harry L. Hollingworth and A.T. Poffenberger, *Applied Psychology* (New York: D. Appleton-Century Co., Inc., 1919); Hugo Munsterberg, *Psychology and Industrial Efficiency* (Boston: Houghton Mifflin Co., 1913); and Walter Dill Scott, *The Psychology of Advertising* (Boston: Small,

Maynard and Co., 1908). Psychology's struggles to become a science and a profession are documented in Donald S. Napoli, *Architects of Adjustment: The History of the Psychological Profession in the United States* (Port Washington, NY: Kennikat Press, 1981).

26 Ferris Buck, comp., "J. Walter Thompson Company Chronology," unpublished document, April 1987. See also, Cynthia Swank, "Some Basic Roots of the J. Walter Thompson Company," unpublished document, April 1987, JWT Archives. There is some confusion with regard to the name used to identify the "research" department, amplified, perhaps, by the fact that branch offices established their departments at different times and adopted their own labels. For example, the New York "Statistical Department" was "duplicated" in Chicago as early as 1916. The company's internal communication suggests that the Statistical and Investigation Department was divided into two separate departments, the Department of Records and the Research Department in 1921. Further, while 1923-1924 reports utilized the name "Statistical Department," after 1924, they more commonly used the name "Research Department." It is also interesting to note that in "Standard Procedure in Conducting Market Investigations," a portion of *The Report on the Work of the Committee on Standardization* 1919 [document], JWT Archives, it is suggested that in conducting surveys where a scientific angle is put on the request, the letterhead used should be "The Bureau of Applied Statistics." It noted that, "This, of course, refers to the Statistical and Investigation Department of the J. Walter Thompson Company." (p. 23).

27 The T-Square was often "defined" in Resor's speeches and writings. See, e.g., Stanley Resor, "What Do These Changes Mean?" p. 10.

28 "Data and Plan Form: An Outline for the Analysis and Study of a Sales Problem and For the Preparation of a Complete Advertising Plan," 1924, [document]; "T-Square Fact Finder," 1919, [typescript]. JWT Archives.

29 See, e.g., Stanley Resor, "Individual Effort Has Had Its Day," *The Fourth Estate* 22 (5 November 1921), p. 22; "Mr. Resor Talks on 'The Future of the Big Agency,'" *JWT Newsletter* 59 (26 December 1924), pp. 1-2; Sam Meek, "New Client Presentation," 1928 [exhibit]. JWT Archives.

30 Meek, "New Client Presentation."

31 "Plan and Data Record," *The Report on the Work of the Committee on Standardization*, 1919 [document], introductory page. JWT Archives.

32 Stanley Resor, "The Agency and the Representative," Basis of talk given before the Representatives Club, 3 November 1919, [typescript], p. 2. JWT Archives.

33 The metaphor of the professional as "magician" is drawn from Burton J. Bledstein, *The Culture of Professionalism: The Middle Class and the Development of Higher Education in America* (New York: W.W. Norton and Company, Inc., 1976), pp. 92-105.

34 "Standard Practice in Conducting Market Investigations," in *The Report on the Work of the Committee on Standardization*, 1919 [document], JWT Archives.

35 Paul T. Cherington, "The Fallacy of Salesman Research," *J. Walter Thompson News Bulletin* 2 (April 1930), p. 28.

36 American Association of Advertising Agencies, National Committee on Agency Service, "Report on Agency Service," Document dated 9 April 1918, submitted and approved at annual Association meeting, 9 October 1918. JWT Archives.

37 Stanley Resor, "What the American Association of Advertising Agencies

Does to Make Advertising Scientifically More Effective," *The Annals of the American Academy of Political and Social Science* 115 (September 1924), p. 129.

38 Stanley Resor, "How Do Current Changes in the Field of Distribution Affect the Practice of Advertising?" *J. Walter Thompson News Bulletin* 118 (December 1925), p. 31.

39 These four "exemplary" studies were: *Population and Its Distribution*, which was essentially a reorganization of Census data into a form believed to be more relevant for business use; the "Rural and Small Town Investigation," a study of consumers, dealers, retailers, and jobbers in eleven "rural" markets (although only two of the eleven appear to have been completed); "The Cincinnati Media Study," officially titled "An Investigation into and Analysis of Subscription Circulation of Fourty-four [sic] General Magazines in Metro politan Cincinnati by Various Groupings," a study of the "qualitative" value of various media vehicles and their audiences; and an experiment related to "brand loyalty" conducted by behaviorist, and then vice-president, John B. Watson.

40 Resor hired behaviorist John B. Watson in 1921, to discover laws of human behavior, and Watson, as a "scientist," too became a "symbol of authority." Although it is beyond the scope of this paper to discuss Watson's involvement in the agency, it appears that from a practical standpoint, Watson over the years became more an advertising technician, and less a scientist. See Peggy J. Kreshel, "John B. Watson at J. Walter Thompson: The Legitimation of 'Science' in Advertising," *Journal of Advertising* (forthcoming).

41 "J. Walter Thompson Company Portfolio — Comprising of Facts and Figures," 1924 [exhibit]. JWT Archives.

42 Helen Resor, Affidavit [document] 20 March 1924, JWT Archives. Stephen Fox, *The Mirror Makers* (New York: William Morrow and Co., Inc., 1984) provides an interesting discussion of Helen Lansdowne Resor's work at JWT (see especially pp. 79-94). For discussions of "woman's viewpoint" from the era, see, e.g., "Be A Woman!" *Printers' Ink* (7 October 1926), p. 112, and Aminta Casseres, "Agencies Prefer Men," *Printers' Ink Monthly* 13 (August 1926), p. 82.

43 Fox, *The Mirror Makers*, p.88.

[8]

Sir Hedley Le Bas and the Origins of Domestic Propaganda in Britain 1914-1917

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For forty years after the close of the Great War, commentators were agreed that in Britain between 1914 and 1917 it was official propaganda alone which "kept the home masses docilely patriotic". On the outbreak of war, it was confidently asserted, control over public opinion had quickly "passed into official hands" as it became vitally necessary "to inflame popular passion sufficiently to secure recruits for the continuance of the struggle"[1]. Only in the 1960s did academics begin replacing this image of a monolithic and all-pervasive propaganda machine with a sharper analysis and a new consensus. In Britain before 1917, it was now said, spontaneous public support for the war brought "no need for complete control of opinion". Earlier theories of conspiracy were dismissed, and historians affirmed that in the opening stages of war "patriotic enthusiasm made extensive propaganda virtually superfluous", and only in the second half of the conflict did official bodies endeavour "to counter the propaganda of 'subversive' groups, to refurbish the images tarnished by war, and to reinvigorate popular support for the war". So complete was this historical revision that it was now stated with confidence that official wartime propaganda "devoted comparatively little attention to the home front"[2].

Yet was this really more than changing fashion in historical analysis, and was the testimony of contemporary observers so completely wrong? It seems not, for the new analysts of domestic opinion concentrated only on those centralised and bureaucratic organisations dedicated to official propaganda, and thus naturally failed to find evidence of government influence prior to February 1917, when the Department of Information began work, or August 1917, when it was joined by the National War Aims Committee. If they had concentrated on advertising rather than on propaganda, and on individual publicists rather than upon organisations, they would have discovered a wealth of evidence for official opinion control before 1917, and numerous indications of the careful identification and manipulation of specific social groups.

In fact, it is to advertisers and not government officials that British historians must look for the roots of domestic propaganda, for it was advertising and not politics which furnished the basic grammar of opinion control. In 1927 Harold Lasswell produced his classic definition of propaganda as the control of opinions and attitudes through the manipulation of "significant symbols":

> by stories, rumours, reports, pictures and other forms of social communications . . . by the direct manipulation of social suggestion rather than by altering the conditions in the environment or in the organism[3].

Yet such analysis was commonplace in advertising, where as early as 1909 Walter Dill Scott had characterised mass publicity as "a great social illusion", and through his influential book "The Psychology of Advertising" had convinced a whole generation of British publicists that powerful advertisements would prove "difficult to distinguish in their force . . . from the words of our friends". By 1914 it was indeed widely accepted by advertisers that in an intensive campaign:

> we attribute to our social environment that which in reality has been secured from the advertisements which we have seen so often that we forget the source of information[4].

It is interesting to trace these links between advertising and government in the career of one prominent publicist, Hedley Le Bas, for it was Le Bas more than any other person who convinced the British government of the advantage to be gained from domestic propaganda.

In 1914 centralised official propaganda was unknown in Britain, yet the advertising industry was remarkably large and buoyantly confident. Annual expenditure on advertising approached £100 million and this supported "directly or indirectly", through trade discounts and commissions, over 80,000 people. About half this huge budget, perhaps £40-£50 million, was spent placing advertisements in newspapers and magazines, and guaranteed the livelihood of some 240 general advertising agencies in London alone. Yet such figures are deceptive in a business dominated by a handful of large clients chasing a limited amount of prime advertising space, for great influence had become concentrated in just a few companies. Indeed, by 1914 half the advertising business in London was passing through just forty or so agencies, whose annual budgets of many hundreds of thousands of pounds placed their directors within sight of the even smaller clique of top advertising consultants, agents, and managers whose decisions swayed the industry[5].

Hedley Francis Le Bas was a member of this ruling elite. Born on Jersey in 1868, he had spent seven years in the army before joining the Manchester publishers, Blackie and Son, in 1893, as a house-to-house canvasser. In 1899 he had tried to re-enlist for service in South Africa, but after his rejection on medical grounds determined instead to venture £150 in setting up his own "Caxton Publishing Company". This proved a striking success, and over little more than a decade, through the careful marketing of encyclopaedias and other multi-volume editions, grew to be the largest instalment publisher and the biggest mail-order advertiser in the country, with 400 provincial representatives and a yearly advertising budget of £20,000 — controlled by its advertising manager Eric Field. By 1913 the firm was making a comfortable £20,000 a year in profit, whilst Le Bas had been chosen as Liberal candidate for West Hertfordshire, and was diligently cultivating London notables on the golf course at Walton Heath[6].

It was on the Walton Heath course in March 1913 that Le Bas first became involved with domestic propaganda. Sir George Riddell, a close friend and fellow director of the Caxton company, brought along the Secretary of State for War, J.E.B. Seely, but he was

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TO THE

YOUNG WOMEN OF LONDON

Is your "Best Boy" wearing Khaki? If not don't YOU THINK he should be?

If he does not think that you and your country are worth fighting for—do you think he is WORTHY of you?

Don't pity the girl who is alone—her young man is probably a soldier—fighting for her and her country—and for YOU.

If your young man neglects his duty to his King and Country, the time may come when he will NEGLECT YOU.

Think it over—then ask him to

JOIN THE ARMY TO-DAY

5 Questions to men who have not enlisted

1. IF you are physically fit and between 19 and 38 years of age, are you really satisfied with what you are doing to-day?
2. Do you feel happy as you walk along the streets and see other men wearing the King's uniform?
3. What will you say in years to come when people ask you—"Where did you serve" in the great War?
4. What will you answer when your children grow up, and say, "Father, why weren't you a soldier, too?"
5. What would happen to the Empire if every man stayed at home like you?

Your King and Country Need You.

ENLIST TO-DAY.

At any Post Office you can obtain the address of the nearest Recruiting Office.

God Save the King.

completely preoccupied with presenting his first annual statement to the House of Commons on the following day. As Le Bas recalled, he seemed particularly worried by the shortfall in army recruiting:

> Colonel Seely happened to turn to me. "Now, you are an old soldier", he said. "Supposing you had to find 35,000 men for the Army, how would you set to work?" My business experience had made me a man with one fixed idea — that publicity will find or create anything. Instantly I answered according to my faith: "I should advertise for them". Colonel Seely, to my surprise, took my answer seriously[7].

Seely was clearly impressed by this confident reply, and even more so by the detailed publicity scheme which Le Bas subsequently drafted and took to the War Office. Indeed, within a few months Seely was not only helping Le Bas to steer his proposals through a meeting of the Army Council, but had in addition promised him some £6,000 for mounting a campaign early in 1914[8].

Two important decisions were quickly reached about this new appeal. Firstly, although it was accepted that bold newspaper advertising would be used in promoting "the advantages of life in the Army", this was to form only part of a "broader educational campaign". Seely in fact hoped to change the whole structure of military recruiting, and, by carefully manipulating its public image, to create his ideal "happy family of civilians + army". This, however, would involve such a radical departure from earlier traditions that, by agreement, the 1914 campaign was made a controlled experiment on which future planning would be based[9].

By October 1913 preparations were well advanced. Whilst "Gaumont" put the finishing touches to a two-hour British Army Film, Le Bas and Eric Field began planning the newspaper advertising[10]. As Field remembered, they quickly recognised "that the recruiting season was very much the same as our bookselling season", and thus determined to build the whole campaign around their marketing strategy for instalment publishing, using "factual, down-to-life appeals like those we used to sell our books"[11]. After careful negotiation whole pages of space were booked at low trade rates, and work began on the copy. Le Bas approached Thomas Wareham Smith, advertising manager of the *Daily Mail,* for details of an earlier, abortive recruiting scheme, which Field then adapted for a new advertisement, headed "What the Army offers", packed with copy and, in true Caxton tradition, finishing with a coupon offering a booklet with the same title. Meanwhile Le Bas brought in Thomas Russell, former advertising manager of the *Times* and now a prominent advertising consultant, for advice on writing the free literature[12].

Le Bas' newspaper campaign opened on 15 January 1914. As previously agreed it was carefully limited to "London papers with a national circulation covering . . . many varied districts, in order to test the plan, and more particularly to test the copy", but it was nevertheless supported with "editorial matter" in provincial journals, and reinforced after four days by the general release of the British Army Film. Some £4,000 went to placing Field's full-page text, which confidently addressed the "ambitious man in want of a stirring life", and told him of the soldier's chances of promotion, his excellent food, generous holidays, "unique opportunities for games and sports, and travel to foreign parts". Within ten days fifty thousand men had sent for the lavishly-illustrated booklet, and were soon eagerly reading that the soldier's pay was "practically

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all pocket-money" and covered the whole week — "although, in nine cases out of ten, he does practically no work on Sunday". Shortly after getting this glossy brochure, and in true advertising tradition, each man received an unexpected call from a recruiting sergeant[13].

The campaign finally closed on 16 February 1914, and was judged a success — not for its slight influence on recruiting but for its effect on the army's public image[14]. The *Advertising World* noted that the publicity "aroused an astonishing amount of interest in the Army", and added significantly "that the authorities at the War Office attach great importance to this aspect of the campaign, and are pleased with the result"[15]. The larger plan could thus go ahead, and Le Bas was allocated £20,000 for a more intensive four-month campaign in the new recruiting season[16].

Planning for this new operation progressed quickly, but the coming of war forced forward the whole scheme. On 29 July 1914, as the War Office prepared its defensive measures, an officer from the recruiting staff hurried to the Caxton office, where, as Eric Field recalled:

> He swore me to secrecy, told me that war was imminent and that the moment it broke out we should have to start advertising at once, using as a temporary measure the £2,000 remaining out of the first vote. That night I worked out a draft schedule and wrote an advertisement headed "Your King and Country need you" with the inevitable coat of arms at the top[17].

Field's new appeal, written six days before the declaration of war, gave a patriotic twist to the earlier emphasis on the common bond between soldier and civilian. It was now the nation and not the state which urged "all her young unmarried men to rally round the Flag", thereby guaranteeing that "England and her Empire will emerge stronger and more united than ever". His restrained style gained War Office approval on 30 July, but Le Bas was ordered to await further instructions, and meanwhile "to make no move whatever, not even to get the advertisements set up, let alone book any space". He thus spent the next four days with Field, planning a detailed schedule of insertions, and hoping to stretch the £2,000 budget to cover double-column displays by persuading editors to take the appeal on their main news pages at trade rates[18].

On 4 August, as orders went out to mobilise the army, the Caxton company finally received authority to proceed. Le Bas and Field immediately took their scheme to Fleet Street, where they won the enthusiastic backing of Lord Northcliffe for his *Times* and *Daily Mail*, and in turn drew more grudging support from other newspapers. Prominent locations were arranged for the next day, and there was no opposition to trade rates, since most regular advertising had been cancelled with the threat of war[19].

The appeal brought an immediate response, but this success created new problems. On 6 August Le Bas approached Lord Kitchener, who had been installed as Secretary of State for War on the outbreak of hostilities, confident that his reputation would provide a splendid focus for the new advertising. As he recalled:

> I knew the solid advantages of that wonderful name and personality, with their power to move people and inspire them to patriotic effort. The right to use the name made the enormous task of finding a new army all the easier[20].

Yet it quickly became clear that Kitchener intended to continue the dignified style in future appeals. As Field recalled, the Secretary of State expressed himself "so pleased

with the first advertisement that he would not allow us to vary the heading", would only permit the inclusion of his name for a short expression of confidence in the nation's patriotism, and even then "insisted on finishing every advertisement with 'God save the King' ". A second restrained announcement thus replaced the first on 7 August, and both appeared as posters, but it hardly marked the start of an intensive modern campaign[21].

The War Office in fact opposed all extensive publicity whilst the initial surge of volunteers continued, and even the Parliamentary Recruiting Committee (PRC), which had been formed by the major political parties to canvass likely recruits, received scant encouragement. At its first meeting on 3 September the PRC Publications Sub-Department rejected suggestions for elaborate posters and widespread appeals, and settled for sober leaflets "of the style and form so familiar as a means of party propaganda at by-elections", but even then Lord Kitchener spoke moodily of "damping down" such efforts to control the unprecedented flood of volunteers[22]. Thus, although Le Bas was permitted to release a third advertisement on 28 August, announcing blandly that Lord Kitchener was "much gratified with the response", he was not permitted to develop his campaign, and by mid-September was apologising to provincial editors that he could not get permission to buy space in local weekly papers. For several weeks he was then restricted to the issue of bleakly technical War Office announcements, and finally became resigned to the fact that "it was, and always would be, difficult to advertise for any Government department"[23].

However, a sudden change of conditions was to give Le Bas his chance. Early in October the War Office confidently lowered the physical qualifications which had been limiting the flood of recruits, only to find that the steady decline in numbers was irreversible, and that it was urgently necessary "to adopt special measures to stimulate recruiting"[24]. By 21 October the War Office was pressing the PRC to redouble its efforts, but the resulting issue of dull leaflets and feeble letterpress posters — based largely on Eric Field's "King and Country" theme — had little effect[25]. Professional advertisers were appalled, and the influential H.E. Morgan, then controlling the publicity departments of W.H. Smith and Son, declared he had never seen "such gross waste of space, such lack of imagination, such commonplace utterances and phrases given such sheer physical publicity". He immediately organised a panel of professional advertisers, "in order that these men, skilled in the art of publicity, should offer their services and experience to the Government to aid recruiting", but the War Office remained shy of innovation, and flatly refused his offer[26].

Nevertheless the example clearly inspired Le Bas, who by the end of November 1914 was busy selecting his own "Advisory Committee" from what he called "the leading authorities on advertising"[27]. He quickly involved both Wareham Smith and Thomas Russell, veterans of the first War Office campaign, and added to them Charles Frederick Higham, an influential advertising agent and editor of *Higham's Magazine,* Henry Simonis, advertising manager of the *Daily News,* and John Camille Akerman, managing director of the *Advertiser's Weekly* and soon to be advertising manager of the *Times.* These men then formed themselves into a "Voluntary Recruiting Publicity Committee", with Le Bas as Chairman and Eric Field as Secretary, and after careful deliberation issued a new type of advertisement on 9 December 1914. The appeal was still to patriotism, but was now couched in those "forcible, attractive, and understandable

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terms" which advertisers had been urging the War Office to adopt. Thus a pictorial border showing shellbursts, a burning town, a soldier firing a field gun, and an aeroplane caught in a searchlight, supported a list of those recently awarded the Victoria Cross, whilst less courageous individuals were assured that the greater the volume of recruits, "the sooner the war will end"[28].

The advertisement heralded an entirely new newspaper campaign. The military authorities at first proved troublesome, for Lord Kitchener remained "suspicious of the popular appeal", and Le Bas had to confess it "hard to bring the conservative British mind to accept such a radical departure". The Committee indeed continued to find itself "considerably hampered by official restrictions of one sort or another", but nevertheless as the demand for recruits increased, the Secretary of State proved "quick to recognise the possibilities of newspaper advertisements on bold and original lines", and became eager for the campaign to continue[29]. His enthusiasm had, however, a practical basis, for with its numerous business contacts the Publicity Committe not only placed its advertising at the lowest rates, but could even become self-financing. As Thomas Russell remembered, of booking its insertions:

> Some of the space was, in the language of the country, "donated" by the newspapers themselves. The remainder was the gift of advertisers, who very unselfishly made their country a present of it, sometimes not even stipulating for a line of acknowledgement at the end[30].

To its advantage the War Office could thus keep the Publicity Committee entirely unpaid and unofficial, and yet ensure that the final text of each draft advertisement "was submitted by Mr Le Bas for the approval of the Army Council"[31].

By late 1914 Le Bas had become "nominal head of the Government's advertising programme", and throughout the winter and the following spring presided over the weekly meetings of his Publicity Committee, where each week's appeal was "written jointly across the table"[32]. As Charles Higham later made clear, the Committee based its new campaign on the power of advertising as a social determinant. Some members of the Committee preferred to see their work as having "appealed to patriotism", but as Eric Field confessed of the new initiative:

> Pure patriotism as a recruiting appeal soon lost its initial force. We ran the gamut of all the emotions that make men risk their lives and all the factors that deter them from doing so[33].

The fundamental image of the new campaign was a country united in its support for the war, and the Committee strongly emphasised this "solid body of opinion" in order that men "hesitating because of the quite natural thought of what would happen to their dependents found their inclination to go so backed by public opinion that they went"[34]. Le Bas, significantly identifying his target as "the common people", concentrated the Committee's output in "those papers which have the largest circulation amongst the recruiting classes", and began to mobilise public resentment against the reluctant volunteer. So successful did this strategy become that eventually, in the words of one prominent recruiting officer, "the atmosphere began to be created whereby it was made uncomfortable for men not to have come forward", and some unfortunates in fact joined the army "not in order to enlist but in order to make their friends think they had wished to enlist"[35].

The Committee's first attempt at indirect pressure appeared in the Press on 21 December 1914. Headed "The War — Four Questions to Employers", it openly promised the nation's gratitude for those who would coerce and bribe their employees, noting slyly:

> Have you encouraged your men to enlist by offering to keep their positions open? Have you offered to help them in any other way if they will serve their country?[36].

The following week the Committee publicised a resolution to enlist, but on 4 January 1915 it returned to the attack with "5 Questions to men who have *not* enlisted", which demanded menacingly "are you really satisfied with what you are doing to-day?", and proceeded to conjure up future resentment in a style to become chillingly familiar:

> What will you say in years to come when people ask you — "Where did *you* serve" in the great War? What will you answer when your children grow up and say, "Father, why weren't you a soldier too?"[37].

Recruiting officers reported this twist particularly effective, and on 13 January 1915 the Committee responded with "4 Questions to the Women of England". Here wives and sweethearts were urged to spare themselves the horrors of invasion by forcing reluctant men to enlist, but even this underhand manoeuvre did not achieve the widespread impact of the Committee's fifth newspaper advertisement, issued six days later, and headed "5 Questions to those who employ male servants". This mobilised yet another set of social pressures through a searching interrogation which ended:

> Will you sacrifice your personal convenience for your Country's need? Ask your men to enlist *TO-DAY.*

This proved particularly fruitful, and so the following week the Committee openly urged the patriotic employer "use your influence and help to end the war"[38].

Throughout the spring of 1915 Le Bas raised a weekly spectre of guilt and fear for the reluctant man and his family, or spirit of patriotic self-sacrifice for his employer, and despite murmurings of "indirect compulsion", and a half-hearted attempt by the War Office to distance itself from the campaign, it remained clear that whilst such methods seemed successful there would be no withdrawal of official support. Le Bas himself thrived on controversy, saw his campaign as a triumph of modern advertising, and shared the *Daily Mail*'s belief that it had proved beyond doubt:

> that given patriotic impulse advertising for people to go to a war is just like advertising for people to buy a popular cigarette or a new boot polish[39].

The War Office was indeed so impressed with Le Bas' efforts that in February 1915 it gave him a second, more sensitive commission. At the start of that month the Parliamentary Recruiting Committee had been asked to consider extending its work to Ireland, but soon concluded that for political reasons it was unwise "to take up definite work there"[40]. An alternative scheme was thus prepared, whereby Le Bas would travel to Ireland as "special representative of the War Office", and in his forthright style would attempt to inspire recruiting and create a firm base for future British propaganda[41].

Le Bas appears to have reached Dublin in the second week of February 1915, and he quickly began overhauling the existing campaign. It was immediately apparent,

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he noted later, that recruiting appeals "in the shape of extracts from the speeches of prominent politicians, such as the Prime Minister, Mr Lloyd George, and Mr Bonar Law" had little effect, and he thus substituted stirring appeals from Irish leaders, choosing carefully those "whose names carried weight in Ireland, especially in the south and west", and adding the motto "God Save Ireland" to the familiar "God Save the King"[42]. He also formed a small advisory committee of Dublin newspaper editors to help in running an intensive poster and leaflet campaign, and here, as one member noted, proved himself "not easily to be stopped when he wants to get his point carried"[43]. Over the next ten weeks he forced a note of urgency into Irish recruiting, with posters which warned "IRISHMEN REMEMBER BELGIUM" or showed melodramatic scenes of German soldiers breaking into an Irish cottage, and newspaper appeals "To the Young Women of Ireland" which hissed:

> Is your "Best Boy" wearing Khaki? If not, don't you think he should be?[44].

The campaign had a slow start, but by the fifth week had apparently boosted recruiting sufficiently for Le Bas to begin planning a more permanent recruiting organisation. He fixed upon a new body called the "Volunteer War Services League", which under his guidance expanded the small advisory committee of editors into a grandiose "Central Recruiting Council for Ireland", and, after his final departure from Dublin, called its preliminary meeting for 21 April 1915. From then onwards everything ran smoothly. The preliminary assembly nominated an honorary Director, who swiftly crossed to London, "met the Secretary of the War Office and the chief recruiting authorities there, and received the warm approval and blessing of the Army Council"[45]. With obvious delight the military authorities then granted the Recruiting Council "the same freedom in Irish recruiting as was enjoyed by the Parliamentary Recruiting Committee in Great Britain", and began to develop it into a firm base for British propaganda[46].

Meanwhile in London the Publicity Committee continued to meet, and increased its pressure on those social groups judged expendable in wartime. By June 1915 there were open warnings that the working classes "resented the hints and instructions which were so obligingly given by the 'publicity artists' and the 'party managers' to the well-to-do", and indeed "regarded the whole of this 'publicity' campaign with distrust and dislike", but Le Bas nevertheless held that modern advertising would answer every problem of wartime government[47]. Thus when he learnt at breakfast on 22 June that the Chancellor's new War Loan had been launched with very little publicity, his mind leapt to a more imposing scheme. As he recalled:

> I immediately put on my hat and made tracks for Mr McKenna's private house. It was rather a risky proceeding, because I did not know Mr McKenna. However, the Chancellor received me most politely, listened to what I had to say, and invited me to the Treasury[48].

Le Bas spent two days in refining his plan, before presenting it at the Treasury on the morning of 24 June. His vision was apparently an intensive campaign of newspaper and poster advertising which would mobilise money with the same appeals that had mobilised men, and McKenna was so fired by the grand design that he pledged an astonishing £100,000 for "the biggest advertising campaign ever carried out in this or any other country"[49]. Le Bas returned to his office, engaged two members of the Publicity Committee — Charles Higham and Thomas Russell — to draft newspaper appeals, and

within hours was informing the Treasury that he had booked nearly £27,000 of space and would call "later on this afternoon with the first advertisement which will appear in the Saturday dailies and the Sunday papers"[50]. Meanwhile McKenna persuaded the PRC to launch a poster campaign for "small investors", and enlisted the help of the Post Office in the delivery of a publicity leaflet to every house. On 25 June a special National War Savings Committee was created within the existing recruiting machinery, and began turning these resources to the production of War Loan propaganda[51].

The campaign which began on 26 June once more relied on indirect social pressure. The aim was to encourage subscription to the War Loan by emphasising national unity and "the need for personal and household economy", and Higham composed daily newspaper appeals to the "practical patriotism" of the middle and upper classes, beginning with the plea:

> The youth of the Country has responded nobly; the working man is meeting the needs of the hour magnificently. Will *you* — who have money — do your share too?[52].

Then, with over £43,000 committed to this campaign, the Savings Committee launched its own vivid poster advertising, which culminated in the remarkable declaration that patriotic civilians would help:

> BY STEADY WORK AND GOOD WORKMANSHIP IN PRODUCING NECESSARY THINGS. BY WISE EXPENDITURE ON THE NECESSITIES OF LIFE AND BY GETTING FULL VALUE OUT OF EVERYTHING BOUGHT, ESPECIALLY FOOD. BY GIVING UP LUXURIES, THE MAKING OF WHICH DIVERTS MEN AND WOMEN FROM THE MORE USEFUL KINDS OF LABOUR. BY AVOIDING WASTE OF ALL KINDS. BY PUTTING WHAT YOU SAVE INTO THE WAR LOAN[53].

As Higham noted, the huge joint campaign thus publicised the cost of the war, by forcing civilians "to realise much more profoundly than they had done before what the State expected every citizen to do"[54].

By the middle of 1915 official resistance to domestic publicity had completely collapsed. In June 1915 the new Ministry of Munitions engaged H.E. Morgan of W.H. Smith and Son to run a press campaign for "War Munition Volunteers", and in the following month, with recruiting publicity continuing and the Treasury spending over £60,000 on its own campaigns, the Government stood revealed as "one of the largest of our advertisers . . . running four considerable campaigns at once"[55]. Publicity now merged with propaganda, and when the War Office decided to scale down its campaign at the end of July, Le Bas was quickly snapped up by the secret overseas propaganda unit, Wellington House, to help establish a film department. Le Bas joined the special five-man executive committee considering film propaganda "in England and abroad", and became their link with the industry, working throughout August 1915 to establish an independent "Cinema Committee" of major firms willing to undertake production. By the beginning of September Wellington House had gained War Office approval of a new propaganda film, and the Cinema Committee "lost no time whatever, and commenced taking the 'Making of Kitchener's Army' in all parts of England". The resulting footage, released at the end of the year, became a loose narrative sequence opening with "the recruiting of the clerk, salesman and navvy in Trafalgar Square", which strongly suggests the influence of Le Bas[56].

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In mid-September, however, the War Office lifted its suspension of advertising, and within weeks Le Bas was again deeply involved in a campaign he felt would prove spectacularly successful. In October 1915 the War Office unveiled an ambiguous plan for boosting voluntary enlistment, known as the "Derby Scheme" after its director, the well-known conscriptionist Lord Derby. By the beginning of November Derby himself was reportedly "paying less attention to the number of recruits than to the creation of a system which will enable Compulsion to be applied", but Le Bas was determined that the scheme should work, and with Eric Field drafted a series of powerful full-page advertisements. On two separate occasions he placed his ideas before the panel of officials responsible for the campaign, but they remained curtly dismissive, and on 16 November Le Bas could only note with despair the final War Office decision "not to do any advertising"[57]. The rejection of his bid to save voluntary recruiting proved a personal blow to Le Bas, and, although the Publicity Committee continued to sit on into 1916, it effectively marked the end of the War Office campaigns[58].

However, Le Bas did not remain unemployed for long. On 16 November he dined with McKenna, now a close friend, and within days had joined his advisory committe on "War Loans for the Small Investor"[59]. Installed in this post — and knighted shortly afterwards for his work on the 1915 War Loan — Le Bas began planning an ambitious propaganda campaign which would confront not individual groups but the whole of society. By the time this advisory committee reported on 26 January 1916, advocating an economy drive directed "to motives of patriotism", Le Bas had in fact completed the outline of a ten-minute publicity film to be sent without cost to every cinema in the country, and "Gaumont" had begun production[60]. By the time the Treasury appointed him to its new "National Organising Committee for War Savings" on 12 February 1916 he had already consulted Henry Simonis over press advertising in the forthcoming campaign[61].

Within a week of his appointment the National Organising Committee had launched into this economy campaign, and had issued a press release attacking "all forms of spending that are wasteful and that absorb labour which could be put to better use". On 24 February a similar appeal urged those with servants "to cut down this form of service . . . by shutting up part of their houses, having less elaborate meals, and otherwise simplifying their household arrangements". At the beginning of March the criticism turned to "elaboration and variety in dress", backed up in a placard which warned:

> TO DRESS EXTRAVAGANTLY IN WAR TIME IS WORSE THAN BAD FORM — IT IS UNPATRIOTIC[62].

By April the official "Treasury thrift film" had reached cinemas, carrying the unmistakeable message that patriotic investment was the civilian's duty, and showing to some nine million before the end of the year[63]. In May there followed a leaflet campaign, in which an early production warned bleakly "when you spend on things you do not need you help the Germans"[64].

Le Bas faced more criticism with this campaign than any other. As he told an interviewer, some opponents held it "beneath the dignity of the Government to deal with such matters in this way", and:

> The idea of a Government telling a woman that she was buying too many hats and expensive clothes — something which we have been doing recently — shocked them, but gradually more leeway was given to us, and the results have justified the course followed[65].

Some of the harshest attacks apparently came from businessmen whose trade was affected, but in pictures and slogans Le Bas continued his attack on extravagance, and soon claimed "a decided turn in favour of economy throughout the country"[66].

This campaign marked the climax of Le Bas' official career, and his subsequent decline is briefly told. In October 1916, with the economy campaign well under way, he transferred to the Ministry of Munitions as head of its new publicity department, and began recruiting eight thousand women munitions workers for London. He booked £1,500 of space "in the daily newspapers and the periodicals that women read", and then embarked on a wider campaign to attract thirty thousand women, but his position in domestic propaganda was severely weakened by the change of Government in December[67]. Not only was he an Asquithian Liberal, who had even advocated a pact with Labour to keep Lloyd George out[68], but he was also far removed from the group of editors and press barons who rose to power with the new Prime Minister, and who now gained powerful inflence over publicity. On 5 January 1917 the new Chancellor of the Exchequer, Bonar Law, invited Le Bas and a group of prominent advertisers to handle press advertising for a new War Loan. Under pressure he raised their budget for the five-week campaign from £20,000 to the slightly more realistic £40,000, but even then seemed reluctant to sanction intensive publicity. This Advertising Committee then spent over three weeks in deliberation, before being suddenly told on 29 January "not to trouble any further about the advertisements", as responsibility for the campaign had been given to Kennedy Jones, a close associate of Northcliffe, and Charles Palmer, whose editorship of the *Globe* had been renowned for attacks on Asquith. The committee protested at this cavalier treatment, but were dismissed with the claim that they "had not done their work in a satisfactory manner"[69]. In evident distress Le Bas tried to force Bonar Law to reconsider, but was immediately advised by his doctors to take several weeks' rest. Within a fortnight he was in a nursing home, having suffered a nervous breakdown, and would play no further part in domestic campaigns[70].

The career of Hedley Le Bas thus shows clearly that an official commitment to domestic propaganda existed long before 1917. Certainly it was less centralised than it would become by the end of the war but, as Thomas Russell noted, it was vital to this development that the early campaigns should have been handled by "professional advertising men, free from the blighting effect of Civil Service control"[71]. It was these men who brought the techniques of advertising into government, and who were able to mobilise opinion, for, as Charles Higham pointed out in 1916, it was only "by skilful advertising" that "the idea of sacrifice was robbed of its vague, rhetorical glamour, and narrowed down, pressed home, to every individual in the land. Have YOU done this, that and the other thing? That was the master-stroke"[72]. It may also be true that the early advertising campaigns could not have succeeded without a spontaneous and eager patriotism, yet by actively shaping and directing that blind enthusiasm, and by turning it to productive ends, advertising quickly developed into propaganda. As a member of Le Bas' orginal Publicity Committee noted afterwards, during wartime:

> Most men and women thought they were acting on their own initiative; and, though in the ultimate sense this was true, yet probably not half those self-sacrificing decisions would have been made without . . . Government publicity[73].

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Indeed, although it would take years for propaganda to become the accepted voice of government, it was between 1913 and 1917 that professional advertisers such as Le Bas finally revealed the significant part it could play in twentieth-century politics. As Bertrand Russell observed in 1924, the techniques of "Government by Propaganda", which had developed in wartime "from the practice of advertisers", were by then almost universal:

> Experience shows that the average man, if he is told a hundred times a day that A's soap is the best, and fifty times a day that B's is the best, will buy A's, although he knows that A is making the assertion for the sake of his own pocket, not from a disinterested love of truth. This fact is now utilised by Governments, especially through the Press and the cinema, to cause subject populations to believe whatever suits the Governments. Although, in democratic countries, the population is allowed to vote, it is not allowed to form its own opinion on the issues, but is hypnotised into the opinion which is officially considered desirable[74].

Ten years earlier such analysis would have been meaningless: ten years later it would be commonplace. During the war there had been a revolution in the techniques of government, and in this revolution the ideas of men like Hedley Le Bas had played a vital role.

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9. *Newspaper World*, 13 Dec. 1913, p. 11. *Advertiser's Weekly*, 17 Jan. 1914, p. 67. *Advertising World*, Feb. 1914, pp. 202-3; Mar. 1914, p. 393. Public Record Office, War Office Papers, WO 106/364, paper A1, ff. 1-2 (notes from Col. Gossett, 22 May 1916).
10. For a description of the British Army film, which Seely hoped would "create an interest in the Army . . . useful for recruiting purposes", see Hiley, N.P., ' "The British Army Film," "You!" and "For the Empire": reconstructed propaganda films, 1914-1916, ' *Historical Journal of Film, Radio and Television*, Vol. 5 No. 2, 1985, pp. 166-9.
11. Field, *op. cit.*, p. 26.
12. *Newspaper World*, 13 Dec. 1913, p. 11. Field, *op. cit.*, p. 27. Smith, T.W., *Spilt Ink*, 1932, pp. 44-5. Russell, T., *Commercial Advertising*, 1920, pp. 260.

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16. Field, *op. cit.*, pp. 27-8. Le Bas, 1916, (iii)-(iv). The new campaign was to start in September 1914, just before the recruiting season began on 1 October, and the Caxton company was this time allowed commission.
17. Field, *op. cit.*, pp. 27-8.
18. Field, *op. cit.*, pp. 28, 134-5. Newspapers normally charged high 'Government Rates' for official publicity, but Le Bas had managed to place the early 1914 campaign at lower 'Trade Rates'.
19. Field, *op. cit.*, pp. 28-9. Some papers even donated the now unwanted space: *Newspaper World*, 22 Aug. 1914, p. 10.
20. Le Bas, 1916, (v).
21. Field, *op. cit.*, p. 29.
22. British Library, Additional MS 54, 192, Publications Sub-Department Minutes 3 Sept. 1914, f.1. *Times*, 2 Sept. 1914, p. 4; 12 Sept. 1914, p. 10. PRO, WO 106/370, Paper headed "Amery", f.2 (notes from Leo Amery in 1916).
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28. H. St. G. O[gden]., 'The Man who Induced the Government to Advertise,' *Higham's Magazine*, Apr. 1916, p. 14. Field, p. 29. *Advertiser's Weekly*, 14 Nov. 1914, pp. 82-3; 24 July 1915. *Daily Mail*, 9 Dec. 1914, p. 3. *Advertising World*, Dec. 1914, p. 573. Le Bas' informal committee was given a number of titles by its members, but I have followed Wareham Smith in calling it the 'Voluntary Recruiting Publicity Committee'.
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33. Russell, *op. cit.*, p. 261. Field, *op. cit.*, p. 29.
34. Higham, C.F., *Advertising: Its Use and Abuse*, 1925, p. 238. Higham, C.F., *Looking Forward*, 1920, p. 116.
35. Le Bas, 1919, p. 245. *Hansard*, House of Commons Debates, 5s lxxiii, 27 July 1915, col. 2148 (H.J. Tennant). PRO, WO 106/364, paper A1, f.4 (notes from Col. Gossett, 22 May 1916).
36. All unacknowledged references to newspaper advertisements follow the text as given in Le Bas' 1916 article, with dates taken from their appearance in the *Times*.
37. Thomas Russell claimed he was "mainly responsible" for this idea of a child questioning its father, which Le Bas liked so much that he got Bernard Partridge of *Punch* to draw a cartoon of the scene — the artist altering the wording to "Daddy, why, weren't *YOU* a soldier during the war?" Like many of the Publicity Committee's ideas this was then borrowed by the PRC, for whom Savile Lumley of Johnson, Riddle & Co. drew the famous poster version captioned "Daddy, what did *YOU* do in the Great War?", issued in March 1915: Russell, 124. Le Bas Papers, loose scrapbook leaf numbered 37

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40. BL, Add MS 54, 192, PRC Minutes 5 Feb. 1915, f.17; 5 Mar. 1915, f.18.
41. *Irish Times*, 5 Mar. 1915, p. 4.
42. Le Bas Papers, cuttings book "re Knighthood, etc.", f.197 (*Freeman's Journal*, 3 Feb. 1916); cuttings book 1914-18 (*Daily News*, 18 Feb. 1915/*Freeman's Journal*, 23 Apr. 1915).
43. *Newspaper World*, 5 Feb. 1916, p. 18. Le Bas Papers, cuttings book 1914-18 (*Dublin Evening Mail*, 9 July 1915). Three members of the Dublin newspaper committee can be identified — H.S. Doig of the *Daily Express*, J.E. Healty of the *Irish Times*, and W.J. Flynn of the *Freeman's Journal*: Le Bas Papers, cuttings book "re Knighthood, etc.", ff.171 (*Dublin Daily Express*, 3 Jan. 1916), 189 (*Daily Mail*, 3 Feb. 1916).
44. Le Bas Papers, cuttings book 1914-18 (*Cork Free Press*, 10 Apr. 1915, *Freeman's Journal*, 28 Oct. 1915/photograph of recruiting poster); cuttings book "re Knighthood, etc.", f.171 (*Dublin Daily Express*, 3 Jan. 1916). Le Bas was particularly proud of his 'Best Boy' appeal, noting how women "flaunted these advertisements at the young men on the streets until in self-defence a stream of volunteers began to pour into the recruiting offices.": *New York Times*, 6 Aug. 1916, Section I, p. 8.
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46. Le Bas Papers, cuttings book 1914-18 (*Freeman's Journal*, 23 Apr. 1915, *Times*, 26 July 1915, *Irish Life*, 8 Oct. 1915).
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50. Le Bas Papers, loose scrapbook leaf numbered 192 (*Advertiser's Weekly*, 2 Apr. 1926); cuttings book 1914-18 (*Advertiser's Weekly*, 3 July 1915). Field, p. 30. Russell, p. 261. PRO, Treasury Papers, T1/11799/15557/1915, file 15550, H. Le Bas to J. Bradbury, 24 June 1915, with enclosure.
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58. Field, *op. cit.*, p. 30. Smith, *op. cit.*, p. 117.

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60. *Times*, 1 Jan. 1916, p. 10. Le Bas Papers, loose scrapbook leaf numbered 192 (*Advertiser's Weekly*, 2 Apr. 1926). Sessional Papers, Cd. 8179 (1916), 'Copy of Report of the Committee on War Loans for the Small Investor', 26 Jan. 1916, p. 4. For details of the production and distribution of the film 'For the Empire' see Hiley, 'Reconstructed propaganda films', pp. 173-7.

61. PRO, T1/11989/31121/1916, file 3998, M.G. Ramsay to H. Le Bas, 12 Feb. 1916. Le Bas Papers, cutting book "re Knighthood, etc", f. 162, H. Simonis to H. Le Bas, 3 Feb. 1916.

62. BL., Tab. 1800 b.9, National War Savings Committee publication No. 39, 'War Savings Handbook', 1916, pp. 57-9. Imperial War Museum, Department of Art, poster 'NWS 7'.

63. For estimated audience see Hiley, 'Reconstructed propaganda films', pp. 176-7, 182 (f.n. 43).

64. BL, Tab. 1800 b. 9, National War Savings Committee publication No. 2, 'Six Reasons Why You Should Save' (2pp).

65. *New York Times*, 6 Aug. 1916, Section I, p. 8. Le Bas Papers, cuttings book 1914-18 (*Daily Sketch*, 15 June 1915). Le Bas also faced resistance from within the Organising Committee, noting that it approached advertising in "a spirit of needless caution", worried by the expense and "a little sceptical of the value of bold appeals for economy in the matter of dress and food and drink and the common luxuries of life". Le Bas, 1919, p. 245.

66. *New York Times*, 6 Aug. 1916, Section I, p. 8. Le Bas, 1919, p. 245.

67. Bodleian Library, Addison MSS, Box 99, typscript diary of C. Addison, entries for 12 Oct. and 20 Oct. 1916. Le Bas Papers, cuttings book 1914-18 (*Leeds Mercury*, 17 Oct. 1916). (G. Riddell) *Lord Riddell's War Diary 1914-1918*, 1933, p. 219 (diary entry for 3 Nov. 1916). Le Bas, 1919, 245.

68. Churchill Coll., FISR 3/10, f. 2645, H. Le Bas to Lord Fisher, 24 Apr. 1916.

69. BL, Ad MS 62170 (Part 3), f. 195, H. Le Bas to Lord Northcliffe, 7 Feb. 1917, with ff. 196-9, enclosed memorandum by Le Bas c.4 Feb. 1917. The Committee was made up of general advertisers prominent in the new Association of British Advertising Agents, including P. de G. Benson (S.H. Benson Ltd.), W.H. Carr (Mather and Crowther Ltd.), P.E. Derrick (Paul E. Derrick Advertising Agency Ltd.), and J. Wann (T.B. Browne Ltd.): Le Bas Papers, cuttings book 1914-18 (*Advertising World*, Jan. 1917).

70. Le Bas Papers, cuttings book "re Knighthood, etc", f. 208 (*Pall Mall Gazette*, 6 Feb. 1917); cuttings book 1914-18 (*Advertiser's Weekly*, 17 Feb. 1917). BL., Add MS 62170 (Part 3), f. 195, Le Bas to Northcliffe, 7 Feb. 1917. Eric Field recalled "even his robust constitution could no longer stand the strain.": Le Bas Papers, loose scrapbook leaf numbered 192 (*Advertiser's Weekly*, 2 Apr. 1926).

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71. Russell, *op. cit.*, p. 262.
72. Higham, 1916, *op. cit.*, p. 133.
73. Higham, 1920, *op. cit.*, p. 116.
74. Russell, B., "Government by Propaganda", in *These Eventful Years: The Twentieth Century in the Making*, 1924, I, p. 384.

B
Advertising Regulation

[9]

By Richard S. Tedlow
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From Competitor to Consumer: The Changing Focus of Federal Regulation of Advertising, 1914–1938

¶ *It is a truism that government regulation of business, like all institutions of the political economy, has been evolutionary in nature. Yet few regulatory programs have metamorphosed quite so completely as that of the Federal Trade Commission, which converted itself in the period covered by this article from a watchdog of "competitive practices" that might militate against preservation of atomistic industrial organization, to an agency bent on protecting the interests of consumers. Professor Tedlow shows how this process worked itself out in the important case of truth in advertising.*

"Promise," wrote Dr. Johnson in 1759, "large promise, is the soul of an advertisement."[1] As the advertisements appearing on the next page suggest, the nature of the promise of American advertising has changed radically in the past century.

The first advertisement, for Hostetter's Bitters, appeared in a primarily rural nation of about 35,000,000 population. The nation had not quite entered the age of big business, and except for the railroads, advertising was thus not yet the tribune of giant enterprise. None of the fears of manipulation of consciousness by corporate overlords through mass persuasion were current. There was little if any sentiment that the unarmed consumer was overmatched by the masters of the media.

It is easy to surmise that the age of the Hostetter's ad was more naive than ours. Perhaps it was. And yet in a sense the customer for this product was quite sophisticated. There probably were some nineteenth-century Mary Hartmans who took the ad literally and complained of yet another broken promise when the remedies proved illusory, but most people knew better. They lived in a land born in what Richard Hofstadter has called one of the first great advertising

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[1] Samuel Johnson, *The Idler*, No. 40 (January 20, 1759) in Walter Jackson Bate, John M. Bullitt, and L.F. Powell, eds., *The Idler and The Adventurer* (New Haven, 1963), 125.

Dyspepsia's pangs, that rack and grind
The body, and depress the mind;
Agues, that, as they go and come,
Make life a constant martyrdom;
Colics and dysenteric pains,
'Neath which the strong man's vigor wanes;
Bilious complaints,—those tedious ills,
Ne'er conquered yet by drastic pills;
Dread Diarrhea, that cannot be
Cured by destructive Mercury;
Slow constitutional decay,
That brings death nearer, day by day;
Nervous prostration, mental gloom,
Heralds of madness or the tomb;
For these, though Mineral nostrums fail,
Means of relief at last we hail,
HOSTETTER'S BITTERS—medicine sure,
Not to prevent, *alone, but* cure.
—Hostetter's United States Almanac, 1867[2]

Female announcer, (earnestly): I'd like to clear up any misunderstandings you may have about Profile bread from its advertising or even its name. Does Profile have fewer calories than other breads? No, Profile has about the same per ounce as other breads. To be exact, Profile has 7 fewer calories per slice. That's because it's sliced thinner. But eating Profile will not cause you to lose weight. A reduction of 7 calories is insignificant. . . .

—Televised Profile bread advertisement, 1971.[3]

campaigns in the history of the world. Not only consumer products but towns and cities and even whole regions of the nation seemed intent on making the "large promise" larger than ever. Few if any citizens held advertisers to a standard higher than editors, who, as Daniel Boorstin has remarked, were not above representing things which had not gone through the formality of taking place for the sake of favorable publicity. The point is that, despite its extravagance, this notice was not atypical. Despite the specificity of its claims, most people probably took it for what it was, pure puffery.[4]

The ad for Profile bread appeared in a nation of 200,000,000 and was communicated over television, which at times had been viewed by over half the nation simultaneously. It was presented by a corporation that in 1970 did $6,300,000,000 worth of business and boasted an advertising budget of $65,000,000.[5]

[2] Reprinted in James Harvey Young, *The Toadstool Millionaires* (Princeton, 1961), 127–128.
[3] *Newsweek*, September 27, 1971, 98.
[4] Richard Hofstadter, *America at 1750* (New York, 1973), 33–34. Daniel J. Boorstin, *The Americans: The National Experience* (New York, 1965), 127.
[5] *Advertising Age* (cited hereinafter as *AA*) Vol. 42 (August 30, 1971), 127–128.

This advertisement was not representative of the kind of message that predominated at the time. In fact it was unique. This was the first advertisement that a corporation had to run to correct an impression in the minds of consumers that the Federal Trade Commission believed was deceptive.[6]

The average American of the Profile-bread era possessed far more education than his nineteenth-century predecessor, and the deception involved in the original, transgressing Profile ad was minute compared to Hostetter's. So far, however, had attitudes changed about what sales representations were permissible that the federal government viewed it as proper to intervene.

More sophisticated though the American of the Profile era may be, the makers of public policy have determined that the persuasive abilities of a forty-billion-dollar industry have outflanked this added protection and that the government should redress the balance. This represents a change in attitude toward market relations. As Justice Hugo Black stated in 1937, "There is no duty resting upon a citizen to suspect the honesty of those with whom he transacts business. Laws are made to protect the trusting as well as the suspicious. . . . [T]he rule of *caveat emptor* should not be relied upon to reward fraud and deception."[7]

When David Hostetter printed his verse on the back page of his almanac, there was no Federal Trade Commission, no postal fraud order, and no state regulation limiting unfair or deceptive advertising. The advertiser was allowed virtually complete latitude to express himself, to invest a product such as Hostetter's Bitters (which was 4 per cent herbal extracts and oils, 64 per cent water, and 32 per cent alcohol)[8] with powers to remedy any number of physical and emotional ills that he viewed the public as suffering from.

Today, the nature of the promise of an advertisement is supervised and circumscribed. There are over a half dozen agencies in Washington that regulate advertising, but of these the Federal Trade Commission is the most important. Its oversight is general while that of the other agencies pertains only to their respective industries. The FTC is a major factor in establishing the tone of the federal government's attitude toward the industry. No analysis of modern advertising style is complete unless it takes into account the agency's restrictions.[9]

[6] *In re ITT Continental Baking*, 79 FTC 248.
[7] *FTC v. Standard Education Society*, 302 U.S. 112, 116 (1937).
[8] Young, *Toadstool*, 125–143.
[9] See generally Note, "The Regulation of Advertising," 56 *Columbia Law Review*, 1019, 1021–1056 (1956) and "Developments in the Law—Deceptive Advertising," 80 *Harvard Law Review*, 1005, 1016–1026, 1038–1118 (1967).

This article examines the evolution of the Federal Trade Commission's advertising policy during its first quarter century, from 1914 to 1938. In the process, it analyzes the concerns that shaped the passage of the Federal Trade Commission Act, the role of the courts in limiting the Commission's discretion, the attitude of the industry toward the agency, and finally the significance of the Wheeler-Lea Amendments, which expanded the rationale for governing advertising from concern with competition to care for the consumer.

Unfair Competition in 1914

Robert Bork has recently written that "The language of the antitrust statutes, their legislative histories, [and] the major structural features of anti-trust law . . . all indicate that the law should be guided solely by the criterion of consumer welfare." Attempts to use the statutes to achieve such social goals as the protection of small traders do violence to the aims of their framers and also make them unworkable. This interpretation bolsters David P. Thelen's view of the progressive period as one characterized by a new consciousness of citizens as consumers rather than merely producers.[10]

Bork's assertion is based primarily on a detailed analysis of the legislative history of the Sherman Act. The debates over the Federal Trade Commission Act offer it somewhat less support. The latter was proposed and championed by two men, Woodrow Wilson and Louis D. Brandeis, for whom the moral dimension of competitive activity was a matter of intense concern. Melvin I. Urofsky has distinguished the attitudes of the two by showing that Wilson was willing to accept bigness in business if it was attained without abuses while Brandeis saw size in any institution, private or public, as a threat to proper social relations in a democracy. He was willing to sacrifice efficiency, which by extension meant sacrificing the welfare of the consumer, to keep business from growing large and to keep the competitive arena decorous.[11]

For both men, however, and for many like-minded thinkers, a key doctrine enabled the fight against giantism to be carried on without harm to the consumer. This was the belief that business bigness was in fact unnatural. It developed not as a rule out of superior efficiency but because of predatory practices long known to the common law,

[10] Robert H. Bork, *The Antitrust Paradox* (New York, 1978), 57. David P. Thelen, *The New Citizenship* (Columbia, Missouri, 1972), 1–3.

[11] Robert H. Bork, "Legislative Intent and the Policy of the Sherman Act," *Journal of Law and Economics*, Vol. 9 (1966), 7–48. Melvin I. Urofsky, "Wilson, Brandeis and the Trust Issue, *Mid-America*, Vol. 49, No. 1 (January, 1967), 22.

such as disparagement, misrepresentation, intimidation, harrassment and annoyance of customers, and so on. Stop these practices and the problem they caused would cure itself.

There were two basic theories on how the cure could be brought about. The first held that the most effective approach was to draft a statute in support of the Sherman Act, which provided a specific catalogue of prohibited activity. The second proposed that competitive acts or practices deemed "unfair" should be prohibited in general and that the determination of what constituted these practices should be turned over to an independent commission.[12]

President Wilson had at first favored the former approach, but he and his aides found it "extremely difficult to draft definitions that would reach the evil aimed at and only that evil." Wilson eventually changed his mind. He opted for a scheme that would allow discretion in determining when a business was acting in an unfair fashion that would be destructive of competition. An appointed commission would be able to nip the growth of trusts in the bud without having to worry about end runs around specific statutory language by clever corporate lawyers. The President's new view won out. The result was that the Federal Trade Commission Act declared in Section Five "unfair methods of competition in commerce" to be unlawful and empowered the Commission to move against such conduct "if it shall appear to [it] that a proceeding by it in respect thereof would be in the interest of the public."[13]

This phraseology was the object of intense controversy during the debates on the bill and of much speculation by commentators and the courts for the succeeding two and a half decades. Precisely what constituted "unfair methods of competition"? For Senator Harry Lane of Oregon, unfairness was embedded in the very nature of competition:

> On looking in Webster's Dictionary, . . . I find competition to be defined as "the act of seeking to gain the object which another is endeavoring to gain at the same time"; "common strife for a single object." There is every inducement in such a struggle to be unfair; there is no inducement to be fair. . . . To plot, to employ stratagem, to use every device that will outwit or overcome one's antagonist, becomes the keynote to success. The bill is intended to keep alive a system of competition in carrying on the business affairs of this country. Of course, . . . it will not do it and . . . can not do it.[14]

[12] Arthur S. Link, *Wilson: The New Freedom* (Princeton, 1956), 417–444.

[13] George Rublee, "The Original Plan and Early History of the Federal Trade Commission," *Proceedings of the Academy of Political Science*, Vol. 11, No. 1 (January, 1926), 115. *Annual Report* of the Federal Trade Commission for the Fiscal Year Ending June 30, 1915 (cited hereinafter as FTC, AR), 5.

[14] *Congressional Record*, Vol. 51, 11540.

The leopard would not change its spots for a regulatory commission, however august its appointees.

For the other protagonists in the debate, competition posed a difficult but not so hopelessly insoluble problem. "Competition is war," declared the bill's floor leader in the Senate, Francis G. Newlands, but "There may be brutal warfare and there may be civilized warfare." It was up to the Congress to see to it that competitive warfare in the United States was as civilized as possible. This goal could best be achieved by enacting the suggested general prohibition against unfair competition. "It seems to me that it would be folly for us to attempt by a definition of each practice to cover the field, because we have the testimony of experts in business that unfair competition is so multiform that if we condemn 20 practices that exist today, 20 more will be invented tomorrow."[15]

Newlands admitted that the term did not have a settled meaning, but its "constantly increasing significance" was appropriate for its purpose. Such vagueness did, however, disturb not only the bill's opponents but also some of its supporters. In a skillful analysis in 1922, Gilbert H. Montague identified eight separate definitions offered by only six of those who spoke in its favor. For some, it meant only infringing on a competitor's trade mark and could not be endowed with the broader significance Newlands sought for it. Critics claimed that if its general nature were granted the act would constitute an irresponsible arrogation of legislative responsibility to a group of five appointees. It is hard not to agree with them that this was one of the most Delphic acts ever signed into law.[16]

Of one thing we may be certain. Neither side was concerned about advertising. The word rarely appears in the voluminous legislative history. When it does, it is not because it is considered an important subject in and of itself but because "unfair" competitors could use it along with other tools to palm their merchandise off as that of more established manufacturers. In other words, advertising was viewed as but one of a number of means by which a general category of unfair or tortious conduct was carried out. Advertising merely of the "glowing" variety, which was neither a tool of monopoly nor a first step on the road to it, was not a prime concern. Had legislators been concerned first with consumers, such advertising would have received more attention. However, the Commission was supposed to

[15] *Ibid.*, 11188–11189.

[16] *Ibid.*, 11189. For a good general discussion of the background of the Commission, see George C. Davis, Jr., "The Federal Trade Commission: Promise and Practice in Regulating Business" (Ph.D. thesis, University of Illinois, 1969), 1–131. Gilbert H. Montague, "Unfair Methods of Competition," 31 *Yale Law Journal* 20–41 (1922).

speak to basic business problems and not expend its energies on "petty squabbles and dishonesties."[17]

An early study of the Commission found the interest that it quickly developed in the industry to be "fortuitous." Reviewing fifty years of its history, Ira Millstein observed that "The most important development in the long history of the FTC's prohibition of false advertising was that the FTC concerned itself with the problem in the first place." From the legislative history and the language of the statute there was no reason to assume it would.[18]

It is quite possible that had advertising been uppermost in mind, a different statute would have been drafted. It might have more closely approximated the Food and Drug Act of 1906 and in all probability would have provided for a speedier resolution of complaints.[19]

The Commission in Action

In the annual report following its first full year, the Commission conceded that "unfair competition . . . is incapable of precise definition" but insisted nevertheless that "its underlying principle is clear." Where methods of competition restrained trade, tended to create a monopoly, or otherwise lessened competition, the Commission felt it could act. In an interesting but unexplained addendum, the report noted that the Commission had "gone further than this . . . and in some instances where these elements did not appear, as in certain cases of misbranding and falsely advertising the character of goods where the public was particularly liable to be misled, the Commission has taken jurisdiction."[20] When it came to false advertising, the Commission, it would seem, was willing to borrow trouble. Despite this aggressive stance, the Commission in its early complaints was careful to link false advertising to monopolistic tendencies.

Advertising was involved in three of the first five complaints the Commission issued in its first year, as it was in the first case, *Sears*,

[17] *Congressional Record*, Vol. 51, 13114; John Perry Miller, *Unfair Competition* (Cambridge, Mass., 1941), 69. See also Rudolf Callmann, "False Advertising as a Competitive Tort," 48 *Columbia Law Review* 876 (1948). Gerard C. Henderson, *The Federal Trade Commission* (New Haven, 1924), 339.

[18] Henderson, *The Federal Trade Commission*, 339. Ira Millstein, "The Federal Trade Commission and False Advertising," 64 *Columbia Law Review* 439, 450 (1964). The importance of advertising as a competitive tool is discussed in a few places in the legislative history such as U.S. House of Representatives, 63rd Cong., 1st Sess. Hearings before the Committee on the Judiciary, *Trust Legislation*, pt. 5, 139–140, 144–145, 154–157, 160, 167–181, 220–222, but for the most part it is conspicuous by its absence.

[19] Henderson, *Commission*, 339; Millstein, "False Advertising," 451. And see Alan Stone, *Economic Regulation and the Public Interest* (Ithaca, 1977), 171.

[20] *FTC, AR* (1916), 6.

Roebuck & Co. v. FTC., to test the constitutionality of the FTC Act as a whole in the Federal Courts. In this case, the circuit court affirmed the Commission's authority to "stop all those trade practices that have a capacity or a tendency to injure competitors directly or through deception of purchasers."[21]

The Commission steadily increased its interest in advertising over the years. A conservative chairman, William E. Humphrey, told a Publishers Trade Practice Conference in 1928 that fraudulent advertising exacted a "toll of millions" annually from the "sick, the unfortunate, and the ignorant; those that are ready to try anything as a forlorn hope."[22] In 1929, the Commission set up a special board to evaluate the increasing number of complaints concerning the problem of dealing with false and misleading advertising. The Commission complained that there were some advertising agents who would use any appeal with "a pull" regardless of truth and that there were some publishers who would run such ads without regard to their readers. However, the Commission congratulated members of both professions as being anxious to help it and to make the "going hard for the faker and the dishonest and easier for the honest-businessman."[23]

The Commission felt its new board was doing the job. "Many purveyors of questionable products and many writers of false, exaggerated, and misleading representations, published in advertisements have either discontinued their advertising or revised their claims and statements to bring them within truthful limits. A fair estimate discloses that over 10,000 false and misleading advertisements have been discontinued directly due to the special work of the special board of investigation."[24] By 1931, eighty-two of the Commission's orders had undergone review in the federal courts. The Commission was vindicated in only forty-three instances, but twenty-two of the twenty-nine involving false advertising were among them.[25]

Considering the FTC's pedigree, this record calls for an explanation. Why such involvement in a trade practice that was of distinctly minor import in framing the act?

[21] *Sears, Roebuck & Co. v. FTC*, 258 Fed. 307, 311 (1919).
[22] Milton Handler, "False and Misleading Advertising," 39 *Yale Law Journal* 22 (1929).
[23] *FTC, AR* (1929), 47–48.
[24] *Ibid.*, (1931), 113.
[25] Millstein, "False Advertising," 452–453.

The Push from the Courts

The Federal Trade Commission became deeply involved in advertising because of the push of the federal courts[26] and the pull of spokesmen of the industry.

As we have seen, the legislative debates over the Act did not leave a clear picture of the Commission's mandate. On the part of some legislators, this vagueness was intentional. They wanted an expert, a-political body to ensure competition by acting as a censor of business morality. Specific sanction was an invitation to evasion, so the experts were given a general charge. In the clever quip of one senator: "[U]nfair competition, like fraud, is a creature of protean shapes. It assumes one attitude today and another tomorrow. As with fraud, so it will be with unfair competition. In fraud there is a constant race between the rogue and the chancellor. In unfair competition there is going to be a constant race between the corporation and the Commission, and, of course, opinions will have to be ground out accordingly."[27]

The federal courts, however, crippled the Commission in this regulatory version of the hare 'n' hounds. The year following the Sears victory, the Commission was reversed in *FTC v. Gratz*. There the court held that defining "unfair methods of competition" would be its responsibility rather than the Commission's, and its approach was restrictive. The controversial words were "clearly inapplicable to practices never heretofore regarded as opposed to good morals because characterized by deception, bad faith, fraud or oppression, or as against public policy because of their dangerous tendency unduly to hinder competition or create monopoly."[28] In essence, the court was denying the sought-for flexibility and limiting the Commission's purview to competitive practices that had been illegal at common law in 1914.

The impact of the *Gratz* decision can be seen in a breakdown of judicial treatment of FTC orders on the basis of old and new criteria of unfair methods. Five per cent of the cease and desist orders for old-criteria complaints were appealed to the courts, and the Commission was sustained in half of these and reversed in half. For new-criteria complaints, 35 per cent of the cease and desist orders were

[26] The idea of looking to the limitations that the federal courts placed on the Federal Trade Commission's other activities as an explanation for the Commission's interest in advertising was suggested to me by Mr. T. Lane Moore III of the National Archives.

[27] *Cong. Rec.*, Vol. 51, 11598.

[28] 253 U.S. 421, 427 (1920).

challenged, and of those the Commission lost almost three for every victory.[29]

By the end of the 1920s, misleading sales activity, including deceptive advertising, was one of the few major areas left in which the Commission could act with judicial blessing. A line of cases beginning with *Winsted Hosiery* in 1922 seemed to allow some freedom in dealing specifically with advertising. Misrepresentation was one of the oldest torts, with cases dating back to the thirteenth century. This general category was apparently old enough to suit the judiciary.[30]

The Pull from the Industry

The judiciary's attitude cannot be the only reason for the Commission's interest in advertising for the simple reason that this interest predates *Gratz*. In fact, it can be traced to the Commission's first year, at a time when its officers were still trying to explain "unfair methods of competition" to themselves and actively seeking to broaden the meaning of the phrase.[31] In order to understand the scrutiny fully, we must take a look at the industry itself.

The three decades preceding the creation of the FTC were years of piping activity in the history of advertising. Formerly dominated by patent medicines and a few other businesses, national advertising was turning into a tool for manufacturers of consumer durables and package goods, which, thanks to the railroads and the decline of local trade barriers, were developing a continental market. Department

[29] The typology and statistics are those of Thomas C. Blaisdell, Jr., *The Federal Trade Commission* (New York, 1932), 38–41. He lists as old criteria, traditional at common law: misrepresentation; trade mark infringement; commercial bribery; bogus independents; lottery sales methods; disparagement; conspiracy to maintain trade channels, fix prices, or coerce; and harrassment. The largest group of cases was in misrepresentation, in which advertising could be and often was involved as it could have been with four of the other above categories. Blaisdell's new criteria complaints include: resale price maintenance, guarantees against price decline, selling below cost, refusal to deal, and violations of Sections 2 and 3 of the Clayton Act (tying contracts, exclusive dealing, price discrimination). For a year-by-year breakdown and categorization of FTC complaints, see *Public Regulation of Competitive Practices* (New York, 1929), 272–278.

[30] Carl McFarland, *Judicial Control of the Federal Trade Commission and the Interstate Commerce Commission* (Cambridge, Mass., 1933), 94 and 39–99 *passim*. *FTC v. Winsted Hosiery Co.* 258 U.S. 483 (1922). Millstein says that after this case "FTC jurisdiction over false advertising was indisputable." "False Advertising," 453. This is something of an overstatement considering the fact that the Commission was reversed on the puffery issue in Ostermoor (although the impact of this decision was muted because of a disagreement about the meaning of an illustration in the advertisement in question). Even in this realm, then, the Commission was not unimpeded. *In re Ostermoor*, 10 FTC 45 (1926); *Ostermoor v. FTC*, 16 F. 2d 962 (1927); Note, "Untrue Advertising" 36 *Yale Law Journal*; "Developments," *Harvard Law Review*, 1020-1021; Ivan L. Preston, *The Great American Blow-Up* (Madison, 1975), 177–178. William L. Prosser, *Handbook of the Law of Torts* (St. Paul, Minnesota, 1971), 685; Note, "Yes, FTC, There is a Virginia,. . ." 57 *Boston University Law Review* 833, 848 (1977).

[31] *Memorandum on Unfair Competition at the Common Law* [Printed for office use only by the Federal Trade Commission] (Washington, D.C., 1916): Memorandum, M.Q. Macdonald to Joseph E. Davies, Federal Trade Commission Papers, Record Group 122, General Records, File #8181-1-1, National Archives, Washington, D.C. (hereinafter FTCP).

stores such as Marshall Field were creating regional markets for the goods they wholesaled and were becoming key institutions in local retailing. Advertising agencies were graduating from their space-brokerage phase. By the 1900s, the most advanced were not only placing but writing copy. For the first time, serious, systematic thought was being devoted to a problem that is still today, one of the most important ones in the industry: What is the best selling appeal? Though they may have persisted, the old homilies about "Keeping Everlastingly At It" no longer satisfied. Repetition of ineffective messages was pointless. The copywriter had to construct an appeal that catered to the desires and the character of the prospective buyer. Short sentences. Attractive display. Above all, "reason why." In the famous paradigm of the day, which Albert D. Lasker made an article of faith at his Lord and Thomas agency, advertising was not to be mere announcement accompained by disconnected claims to excellence but rather "salesmanship in print." Insights from the new psychology could prove useful in this endeavor. Advertising could be scientific, not hit or miss.[32]

Like other business auxiliaries at the turn of the century, advertising men were striving for respectability, for the day when men might say that "they are in the advertising business with just as much pride as the man who says, 'I am a professor at Yale'."[33] The familiar paraphernalia associated with this aspiration, such as trade associations and journals, college courses, and statements of ethics, abounded by 1914.

In this atmosphere, copy like that for Hostetter's, the outright lying so prevalent in the nineteenth century, was meeting increasing disrepute within the trade. Such advertisements were unscientific in every way. They reflected on the credibility of legitimate appeals, affronted respectable publishers, mocked professional pretensions, and humiliated common sense. As the patent remedies became a lower percentage of total advertising volume, it became more possible to build an advertising business without them.

By 1906, *Printers' Ink*, the industry's leading trade journal, had modified its earlier stand against governmental attempts to prevent

[32] This paragraph is based on a variety of sources. Indispensable are Daniel A. Pope, "The Development of National Advertising, 1865–1920" (Ph.D. Thesis, Columbia University, 1973) and Ralph M. Hower, *The History of an Advertising Agency* (Cambridge, Mass., 1949). Others include Stephen R. Shapiro, "The Big Sell" (Ph.D. thesis, University of Wisconsin, 1969); Robert W. Twyman, *History of Marshall Field & Co.* (Philadelphia, 1954); Claude C. Hopkins, *My Life in Advertising* (Chicago, 1966); Albert D. Lasker, "Reminiscences" Columbia Oral History Collection: "The Lasker Story. . . As He Told It," *Advertising Age* (hereinafter *AA*) July 7, 1952 and the twenty-five following issues; John Gunther, *Taken at the Flood* (New York, 1960); Merle Curti, "The Changing Concept of 'Human Nature' in the Literature of American Advertising," *Business History Review*, 41 (Winter, 1967).

[33] Quoted in Pope, "National Advertising," 317.

untruthful advertising. In its 1911 convention, the Associated Advertising Clubs of America launched its truth-in-advertising campaign. Stimulated by the discussions there, the first local "Vigilance Committee" was formed to monitor advertising, and John Irving Romer, editor of *Printers' Ink*, retained Harry D. Nims to draft a model statute prohibiting false and misleading copy.[34]

Given this background, it is not surprising that Merle Sidener, head of the National Vigilance Committee of the Associated Advertising Clubs of the World, should ask FTC Chairman Joseph E. Davies "to inform me whether or not a ruling has been made by the Federal Trade Commission declaring untrue, deceptive or misleading advertising to be unfair competition." If not, he and others wanted an opportunity to make the case that it should.[35]

Nor should it necessarily be surprising that Davies and Vice Chairman Edward N. Hurley were amenable to such a presentation. Hurley and Davies headed different factions in the Commission, but both recognized the need to take visible, popular steps to put the new agency on its feet. Refining the competitive arena by fighting deceptive advertising, through which one businessman might garner trade that should in justice have gone to another, seemed to fall into this category.

The progressive era was one deeply concerned about making truthful data widely available. A cornerstone of the current idea of progress was that people were rational and, given light, would find their own way. "Facts," Ray Stannard Baker later recalled, "facts piled up to the point of dry certitude was [*sic*] what the people then needed and wanted." Because facts would lead to certitude rather than to more questions and harder choices, they were the key to avoiding conflict. In the debates about the Federal Trade Commission Act, publicity was often touted as a benefit of the Commission. What better way to accomplish these ends than through advertising reform, especially when those most affected were eager to help. It made sense from everyone's point of view. Both Davies and Hurley were personally acquainted with the leaders of the truth-in-advertising crusade, and they extended to them a cordial invitation to come to Washington to state their case. The hearings took place on November 23, 1915.[36]

[34] *Ibid.*, 337-393; Roland Cole, "Review of the Ten-Year Fight Against Fraudulent Advertising," *Printers' Ink* (hereinafter *PI*), Febuary 24, 1921, 17-20, 25-26; H.J. Kenner, *The Fight for Truth in Advertising* (New York, 1936), 26-36.

[35] Merle Sidener to Joseph E. Davies, August 30, 1915; Warren B. Choate to Merle Sidener; September 3, 1915; Joseph E. Davies to Merle Sidener, October 10, 1915; Herbert S. Houston to Joseph E. Davies, November 9, 1915; General Records, File #8505-550-2 FTCP.

[36] Richard S. Tedlow, *Keeping the Corporate Image: Public Relations and Business, 1900-1950* (Greenwich, Conn., 1979), Chapters 1 and 2; Lee W. Huebner, "The Discovery of Propaganda" (Ph.D.

A delegation of six officials of the Associated Advertising Clubs of the World told the Commission about the *Printers' Ink* Model Statute, which had been enacted in thirty-two states, and of other means they used to fight false advertising. The problem was that the state-by-state approach was inefficient because of the increasing volume of regional and national advertising. The Post Office, despite a fraud statute that dated to 1872, was, some believed, doing more harm than good. What the AACW wanted, explained its president, was "a ruling or an expression of willingness to receive from us these interstate cases that are coming up constantly. . . . We believe that we are a natural ally to the Federal Trade Commission." Another witness observed: "When it goes out that this Commission has taken the position that dishonest advertising is unfair competition, that that is the position of the federal government, there are a lot of these men who are going to stop and say, 'We had better be a little bit more careful; while the vigilance committee can make us some trouble, we can handle them, but we do not care to get mixed up with the federal government'."[37]

As for the question at hand, the witnesses had no doubt that false advertising did indeed constitute unfair competition. Wrongdoers used it to invade the sanctity of trade marks and to disparage competing products. Another alleged abuse was perpetrated by large department stores and distributors who claimed through their advertising that because they bought in bulk they could sell well-known branded merchandise for less than small, local businessmen. In fact, it was claimed, these products were available more cheaply not because they were bought in large quantities but because they were loss leaders. These deceptive advertisements fostered

> the impression that local men cannot compete with these big people. . . . [I]t is almost impossible for one man to retain his trade when another man is allowed the liberty of saying that he is offering values which he is not offering, and we cannot, in this country, afford to put that handicap upon

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Thesis, Harvard University, 1968). Ray Stannard Baker, *American Chronicle* (New York, 1945), 183. Newlands suggested that the Commissioners appointed would be "lawyers, economists, publicists, and men experienced in industry." *Cong. Rec.*, Vol. 51, 11108. My appreciation of the importance to the Commission of making accurate information available to the business community was increased by conversations with Lane Moore. On this topic, see Edward N. Hurley to Joseph E. Davies, January 21, 1917 General Records, File 8517-88, FTCP. Davies addressed the AACW convention on "Competition and Democracy" on June 20, 1915 in Chicago. Joseph E. Davies speech file, Federal Trade Commission Library, Washington, D.C. Hurley's book, *Awakening of Business* was published through the AACW in 1916. *Journal of William S. Culbertson*, 1917–1918, Box 3, William S. Culbertson Papers, Library of Congress, Washington, D.C.

[37] For procedural enforcement problems that rendered the Model Statute virtually without serious effect, see "Regulation," *Columbia Law Review*, 1058–1065. "Before the Federal Trade Commission. Conference with Representatives of the Associated Advertising Clubs of the World," November 23, 1915, 11 and 60, Docket Section, File # 40-2-19-1, FTCP.

> honesty. . . . [I]t caters to the cupidity of the public, . . . and it disturbs trade and throws it out of its natural channel, tends to concentrate it in big cities and in the hands of big stores, and is generally unfair to the small man who cannot exploit, who has not the money to buy these pages, has not the money to offer a few unusual values, and who is thereby placed in a position of being unable to compete with them.[38]

The foregoing well illustrates the thrust of advertising regulation, which put the welfare of the seller, or at least a certain class of seller, above that of the consumer. Despite the deceptive explanation of how a low price was facilitated, a bargain was a bargain and the consumer saved. Surely a consumer-minded Commission would not be swayed by arguments about "cater[ing] to the cupidity of the public." Regulation with the consumer uppermost in mind might have begun not here but rather with an analysis of the nature of advertising expression in general. This, however, was a direction in which the AACW discouraged the Commission from moving: "Due allowance must be made for the expression of legitimate enthusiasm and due allowance made for the effect of individual viewpoint. Every man should have the right to say about his product what he believes to be true. There are circumstances where exaltation brings the reader nearer to precise understanding than scientific statement of technical fact."[39]

The Raladam Case

The Federal Trade Commission was the butt of a good deal of criticism in the 1920s, but its advertising regulation was usually viewed as a bright spot on its record. The Commission, as we have seen, pointed to it with pride, and some businessmen also voiced approval.

Crusaders against misleading advertising outside the Commission were less enthusiastic about its accomplishments but saw in some of its activities encouraging portents. In *Your Money's Worth*, a pioneer consumerist manifesto, Stuart Chase and F. J. Schlink noted that the Commission was likely to act against grosser misrepresentations, but concern for competition rather than consumers was viewed as a drawback. The Commission, they charged, was becoming too solicitous of business interests. They concluded that its "work at best is only one thin wedge in a very wide gap." Nevertheless, that was better than nothing, and they viewed the material it developed as

[38] "Before the Federal Trade Commission," 45–46.
[39] *Ibid.*, 21.

useful in constructing their critique of advertising practices. Milton Handler, a leading scholar on advertising law, chose his words carefully in his evaluation of the Commission: "Of all the legal agencies actively engaged in the suppression of false advertising, the Commission has been the most effective. The task which it has set for itself is perfectly enormous; its herculean labors may have had no appreciable effects as yet, but it has made a worthy beginning."[40]

Handler was fearful that a case that was decided in 1931 would eradicate even this progress. This was the famous, or infamous, *Raladam* case. Edward Hayes, owner of Raladam, had gone into the proprietary business back at the turn of the century with Man Medicine, guaranteed, among other things, to make "'Old Men' boys again." Hayes counted on embarrassment to prevent disgruntled customers from exposing the worthlessness of his nostrum, but he was to be disappointed. He had been operating on a mail-order basis, and the Post Office Department soon caught up with him. A fraud order put Man Medicine out of business.

The dauntless Hayes had, however, launched another product, Marmola, a tablet containing thyroid extract and sundry other ingredients depending on what was available cheaply at any given time. "People used to think that excess fat came from over-eating or under-exercise," explained the ads, but "fat people, it was found, generally suffered from an under-active thyroid." In fact, 95 per cent of the obese did not suffer from thyroid disorders, and even for those who did the dangers of using this product were enormous. It constituted a cruel exploitation of sufferers, surely a concoction that the government should be able to protect the people against.

Hayes, learning from past experience, evaded postal fraud sanctions by marketing the product through wholesale and retail druggists and shipping it only by express. The Commission moved against it in 1929, demanding that if it were to be promoted for weight reduction, it must include a statement of the dangers involved and the need for the supervision of a physician. Hayes took the Commission to court and won a stunning victory in the sixth circuit.[41]

The circuit court overruled the Commission on two grounds. First, Hayes had managed to bring forth enough testimony in his favor from physicians to make his claims defensible as honestly entertained matters of opinion rather than testable assertions of fact. This holding was questionable enough, but the court then asserted that no

[40] Stuart Chase and F.J. Schlink, *Your Money's Worth* (New York, 1927), 96, 208–212. Milton Handler, "The Jurisdiction of the Federal Trade Commission over False and Misleading Advertising," 31 *Columbia Law Review*, 527, 550 (1931).

[41] James Harvey Young, *The Medical Messiahs* (Princeton, 1967), 70–81.

matter what the public interest, the Commission was bound by the language of the statute to act only when competition was adversely affected by unfair practices. "This cannot exist unless there is competition, and there cannot be competition unless there is something to compete with." The FTC failed to make this showing.[42] From now on, the court seemed to be saying, the Commission would have to hold in check its tendency toward becoming a consumer-protection agency and keep in mind that it was conceived in an anti-trust context.

Milton Handler published a devastating critique of the circuit court's opinion. It meant that misrepresentation and fraud were allowable when practiced by every tradesman in an industry and actionable only when one honest one entered the lists. It also meant that misleading advertising by a monopoly was protected. Could it be that Congress had intended to discriminate in favor of monopolies? Certainly not. The court was ignoring the "public interest" clause of the statute to which previous decisions had given some weight. What was proscribed, furthermore, was not merely "unfair competition" but "unfair methods of competition." The second clause was purposely selected and in fact the wording of Section Five of the act was engineered to give the Commission freedom in dealing with unfair practices. The Court had taken it upon itself to rigidify what Congress had left purposely vague.[43]

Nevertheless, the decision was affirmed by the Supreme Court, which succinctly limited what the Commission could do in the area of consumer protection: "The paramount aim of the act is the protection of the public from the evils likely to result from the destruction of competition or the restriction of it in a substantial degree. . . . Unfair trade methods are not per se unfair methods of *competition*."[44] As for Hayes, he doubtless took a special delight in thumbing his nose at the authorities. No need to worry over this "silly gossip about harmful ingredients," he said in his advertisements. Marmola's continued prosperity proved its efficacy.[45]

There is some disagreement over the impact of this case. Some say it was not as great as it appeared. FTC Chairman Ewin Davis announced that "[I]t is the rarest case in the world" in which competitors were not adversely affected when consumers were, and the Commission's annual reports mention it only in passing. The FTC continued to issue cease and desist orders against advertising,

[42] *Raladam Co. v. FTC*, 42 F. 2d 430, 436–437 (1930).
[43] Handler, "Jurisdiction," 534.
[44] 283 U.S. 643, 647–649 (1931).
[45] Young, *Messiahs*, 210–211, 127.

though now it was more careful to specify competitive effect. This heightened care finally led to the defeat of Raladam itself in 1935. One commentator has noted the Commission's "resiliency" in finding injury to competitors that the courts were able to accept.[46]

Nevertheless, the *Raladam* decision did pose a serious problem. Athough one would think, on the face of it, that false advertising would always have some anti-competitive effect because the consumer would spend his money elsewhere had he not been deceived, the tests laid down by the Supreme Court were not always easily satisfied, and if some judges were content to finesse them they loomed as a threat and limited those cases that the Commission would take up in the first place. In supporting a legislative overruling of the Court's decision, Senator Burton K. Wheeler told his colleagues that he had been informed that "the Commission has to spend most of its time and most of its money trying to find out how some competitor was actually injured in dollars and cents. It is said that it is difficult many times to show that fact, but they have to show it, at great expense to the Commission, and most of their time and most of their money is spent in that way."[47]

The case received a good deal of publicity in trade and general circulation periodicals, which speculated that the consumer was now without effective government protection against false advertising. If so, warned *Drug Markets*, industries must increase self-regulation. Otherwise, corrective legislation would surely follow.[48]

There may well have been a chilling effect on regulation. And what is more, a moral gap in public policy was created. The 1930s witnessed the most intense consumerist agitation since the progressive era, highlighted by the growth of Consumer's Research, the publication of the "guinea pig" series (including *100,000,000 Guinea Pigs*, *Guinea Pigs No More*, and *40,000,000 Guinea Pig Children*), and the Food and Drug Administration's "Chamber of Horrors" exhibition. The movement never reached its potential, but it did indicate to a select but influential audience numerous examples of callous corporate disregard for the public welfare. In this atmosphere, the government was telling the public that its regulations would bring redress only as an ancillary result of response to corporate need.[49]

[46] Stone, *Economic Regulation*, 158. George J. Alexander, *Honesty and Competition* (Syracuse, 1967), 2.

[47] Statement in Senate during debate on S. 3744 in Charles Wesley Dunn, ed., *Wheeler-Lea Act: A Statement of Its Legislative Record* (New York, 1938), 63–64.

[48] *Drug Markets*, June, 1931, Press Clippings, Book 1, FTCP.

[49] Arthur Kallett and F.J. Schlink, *100,000,000 Guinea Pigs* (New York, 1933), 12, 70.

The Wheeler-Lea Amendments

The passage of the Wheeler-Lea Amendments to the Federal Trade Commission Act and the new Food Drug, and Cosmetic Act of 1938 served as a partial remedy to this situation.[50] The Food and Drug Administration began pushing for legislation to strengthen the Pure Food and Drug Act of 1906 in 1933. There was some hope that a new act could be pushed through Congress during the Hundred Days, but the political clout of the Proprietary Association, the Associated Grocery Manufacturers of America, and the advertising associations, combined with the vulnerability of an agency "tainted" with "Tugwellism" in the eyes of many businessmen and Congressmen, prolonged the process for five years. An important aspect of the struggle was the transfer of regulation of the advertising of the food, drug, and cosmetic industries from the FDA, where the Food, Drug, and Cosmetic Act as originally proposed had placed it, to the FTC.

The proprietary manufacturers and, at first, some of the other industries involved felt that this transfer was essential. The FDA could impose criminal sanctions and with its powers of multiple seizure could act quickly and decisively. Its staff boasted such vigorous reformers as Walter Campbell and Ruth deForrest Lamb, and it appeared to have a clear "anti-business" slant. The FTC, on the other hand, seemed a far more congenial organization. It could not prevent the sale of a product but only the deceptive claim. Advertisers had lived with its cumbersome cease and desist orders for two and a half decades and some felt they could handle the problems they posed (although this sentiment was not universal). Affected industries are said to have fostered conflict between the agencies in the hope that regulation would get lost in the shuffle.[51]

But advertisers and agency men were not of one mind as to which agency was preferable. As the original bill proposed by the Food and Drug Administration went through successive modifications, some favored leaving control of advertising in its hands. In the view of Ewin Davis, however, that would never do, and he proved a past master at defending his bureaucratic turf.[52] His efforts were instrumental in saving advertising regulation of food, drugs, and cosmetics for the FTC.

[50] Much of the discussion of this subject draws on, but does not follow in every respect, two skillful studies: Otis Pease, *The Responsibilities of American Advertising* (New Haven, 1958), 115–137 and Charles O. Jackson, *Food and Drug Legislation in the New* Deal (Princeton, 1970), *passim*.

[51] Bernard Sternsher, *Rexford Tugwell and the New Deal* (New Brunswick, N.J., 1964), 227.

[52] This skill is pithily illustrated in the description of the following skirmish by law professor David F. Cavers, who was an advisor to the Department of Agriculture during the New Deal: "The debate in the House took place late in the evening of June 20. It was a short one. The issue was nicely defined by

On March 21, 1938, the Wheeler-Lea Act was signed by the President. "[T]ruth in advertising," said Gilbert H. Montague, was now "unequivocally written into the national law."[53] Montague overstated the case, but the Wheeler-Lea Amendments did, in fact, open a whole new arena for FTC activity. The Commission now had an opportunity to gain in this new realm, consumer protection, power and respect that had been whittled away in its attempts to regulate competition.

The amended Section Five (a) declared "unfair or deceptive acts or practices in commerce" to be unlawful. It was thus not necessary to show competitive effect. Section Five (l) provided for penalties of $5,000 per violation of final cease and desist orders. A new Section Twelve spelled out specifically the ban against deceptive advertising "of foods, drugs, devices, or cosmetics." Under Section Thirteen the Commission had added to its cease and desist orders the power to seek injunctions under limited circumstances. And Section Fifteen (a) contained a definition of "false advertisement" that is worth quoting at length:

> The term "false advertisement" means an advertisement, other than labeling, which is misleading in a material respect; and in determining whether any advertisement is misleading, there shall be taken into account (among other things) not only representations made or suggested by statement, word, design, device, sound, or any combination thereof, but also the extent to which the advertisements fails to reveal facts material in light of such representations or material with respect to consequences which may result from the use of the commodity to which the advertisement relates under the conditions prescribed in said advertisement, or under such conditions as are customary or usual.[54]

The opportunities presented by the legislation were remarkable. First, the requirement of *scienter* was dispensed with. Common law fraud and numerous state advertising statutes demanded that deception be knowing before it could be acted against. Proving the state of mind of the advertiser had rendered most such statutes of little effect. Milton Handler applauded this development: "To the duped consumer, the state of mind of the advertiser at the time the

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Representative McReynolds of Tennessee who said: 'Now members of the House, what are you going to do about it? Are you going to turn this over to Tugwell for enforcement or are you going to leave it with the Federal Trade Commission with such men as Judge Davis and other men from this House on that Commission? [Applause]' Representative Rayburn . . . observed: '. . . there is nobody who has lobbied around this Capitol on any bill in the twenty three years I have been in Congress more than the members of the Federal Trade Commission have lobbied on this bill. . . .' When the vote was taken, the score stood: Tugwell, 70; Judge Davis and the other House alumni, 190." "The Food, Drug, and Cosmetic Act of 1938," 6 *Law and Contemporary Problems* 2 (1939).

[53] *New York Journal of Commerce*, March 24, 1938, Press Clippings, Book 1, FTCP.

[54] The amendments are published in Dunn, *Wheeler-Lea*, 2–8.

misrepresentation was made is of no consequence. It is not the advertiser's subjective intent or knowledge but the fact that his wares are not as represented that causes harm."[55]

Nor was there a requirement of "reliance" (i.e. that the consumer relied on the advertising claim in making the purchase). Handler also praised this aspect of the new law. "To introduce the element of reliance . . . in an offense which is to be enforced by a public agency and not by private suit is to raise an extraneous and difficult factual issue, provocative of endless and fruitless debate." The falsity of a statement should not be determined by its "capacity to deceive an intelligent consumer." What is false is false no matter whom it fools.[56]

Almost unnoticed by commentators at the time was Section Five's scrutiny of representations "suggested" as well as "made" and failure to reveal facts as well as facts revealed. This latter provision especially could have important uses in the hands of a militant Commission and sympathetic courts. Other major features, as already noted, dealt with enforcement. Injunctive powers were not to be lightly regarded, and the cease and desist order was beefed up by time limits for response and heavy penalties for violation.

There were, of course, problems. An advertisement had to be "misleading in a material respect." Handler feared this might provide an entrance for reliance through the back door. The courts might adopt as a standard for proof of materiality that consumers had relied on the claim, as was the custom in tort law. Under the Food, Drug, and Cosmetic Act, a more stringent standard was applied to labeling, which could not be "false or misleading in any particular." The door was thus opened for divergent phraseology *about* products and *on* them, a difference that did not bode well for a customer who would be receiving progressively more product information through advertising in the electronic era than through labels.[57]

A second potential problem created by the looser phraseology of Wheeler-Lea was the question of fact versus opinion. A House report on the bill noted that "Common experience discounts statements of a zealous advocate and weighs his declarations in the light of his own

[55] Milton Handler, "The Control of False Advertising under the Wheeler-Lea Act," 6 *Law and Contemporary Problems* 91, 97 (1939).

[56] Handler, "Wheeler-Lea," 97. An example of the problem that *scienter* and reliance could cause in private actions is shown by the case of a consumer who brought an action of deceit against a baker because part of a wire nail had been embedded in a loaf of bread, which, to her discomfort, she had swallowed. She based her action upon the advertised claim that "This bread is 100 per cent pure, made under the most modern, scientific process, [and] has very special merit as a healthful and nutritious food." The court found (1) that this claim merely meant that no unwholesome ingredients were used in the preparation of the bread and not that some foreign substance might not be present by accident, (2) that there was no proof the baker had known of the presence of the nail, and (3) that the consumer had not proven she had relied on the claim to purchase the product. Handler, "False and Misleading," 23.

[57] Handler, "Wheeler-Lea," 97. Young, *Messiahs*, 300–301.

self-serving financial purposes. Reasonable latitude must be conceded to the salesman and advertiser in boosting his own product. It is not the purpose of this committee to ignore the realities of this situation." This laconic legislative equivalent of "A salesman is got to dream" left the door open for puffing, exaggerations or expressions of opinion not relating to facts that the seller offers in behalf of his wares.[58]

Facts can be true or false but not opinions. To this day the Commission does not take puffery seriously, but purists like Handler and Ivan Preston insist that this is the very heart of the advertising problem. Examining facts while ignoring puffs will naturally, they have held, drive the pitch man from the former to the latter and thus defeat the true purpose of a consumerist program of advertising regulation, which calls for the provision of all pertinent factual information needed to make an intelligent purchase.

Yet another problem, one that has plagued the Commission for forty years, related to the adoption of a standard for deception. In this area the Amendments left the Commission with definitional problems as difficult as those in the original Act. The Amendments prohibited "unfair or deceptive acts or practices in commerce." What might these be in the context of advertising? Handler strongly opposed borrowing the "reasonable man" standard from tort law.

> False advertising laws are designed to protect the weak, the infirm, the unwary, the easily duped, even the fool. . . . There would be little need for advertising legislation and other forms of consumer protection if the advertiser made his appeal to "reasonable men." It is because consumers are unsophisticated, because they unreasonably attach importance to baseless claims, because they are lured by exaggerations, half-truths, ambiguities and emotional appeals—in short because consumers do *not* always act wisely or reasonably—that legislative protection is required.[59]

However admirable in theory, this standard invited pettiness in case selection, an invitation that the Commission unfortunately accepted.

The advertising world was certainly aware that these Amendments signaled potentially important changes. Leading trade journals were now adorned with headlines such as "Rigid Copy Requirements Seen as FTC Cracks Down," "The Law Has Teeth," "Drastic Changes in Advertising Claims Forced by FTC," and "It Had Better Be True!" Numerous analyses appeared with detailed instructions on how to stay out of the "Shadow Over the Copy Desk."

[58] Dunn, *Wheeler-Lea*, 168. See Preston, *Blow-up*, ix-x, 17-20, 303-304.
[59] Handler, "Wheeler-Lea," 98.

Said *Printers' Ink*, "[A]dvertising censorship, imposed by law, is here."[60]

Epilogue

The first few years under the amendments, the Commission acted as if it meant to take them seriously. In two years, it obtained eighteen injunctions stopping advertising pending final disposition of proceedings. Chief of medical opinions, J. J. Durrett, appropriately enough an alumnus of the FDA, campaigned to put teeth in the "affirmative disclosure" provision.[61]

An indication of this vigor comes from reactions from representatives of the advertising industry, some of which we have just sampled. Bruce Barton, serving in the House, at the time, charged in 1940 that "the New Dealers have loaded the staff of the Federal Trade Commission with men who are definitely anti-advertising and anti-business." Their aim was to attack the press through advertising because of its opposition to the New Deal. From another perspective, the author of a note in the *Harvard Law Review* asserted that "The task of eliminating dishonest advertising is executed ably by the Commission insofar as its powers permit. . . . A marked consumer-consciousness characterizes recent federal activity, both legislative and administrative."[62]

After this initial outburst, however, FTC advertising regulation degenerated to the level of its other activities, a level that was to make the Commission a legend in Washington. There are a number of reasons why. First, there was little coordination with the FDA, which bore scars from the advertising battle that it carried for years. The resulting lack of communication led to confusion and inconsistency in government regulatory efforts.[63]

Second, World War II, resulted in heightened prestige for the advertising industry in much the same degree as did World War I. There was perhaps a bit less talk about advertising's shortcomings and a bit more about how the "great information industry" was an "essential ingredient of a free society."[64]

[60] *AA*, July 9, 1938, 1; *PI Monthly*, August 1, 1938, Press Clippings, Book 1, FTCP; *Grocers Commercial Bulletin*, August 1, 1938, *PI* August 25, 1938, *Ibid*. The New York *Times* felt that copy was being toned down (August 14, 1938, *ibid*.), but Otis Pease rightly cautions that the general impact of the Amendments on copy is difficult to determine. *Responsibilities*, 137. Alfred Stanford, "Shadow Over the Copy Desk," *Advertising and Selling*, October, 1, 1938, 29–30 *ff*. September 15, 1938, Press Clippings, Book 1, FTCP.

[61] Note, "The Consumer and Federal Regulation of Advertising," 53 *Harvard Law Review*, 828, 839 (1940). Young, *Messiahs*, 302–303.

[62] New York *Times*, February 16, 1940, 14. Note, "The Consumer and Federal Regulation," *Harvard Law Review*, 841.

[63] Young, *Messiahs*, 299.

[64] Erik Barnouw, *The Sponsor* (New York, 1978), 39.

Third, instead of being alleviated by injunctions and streamlined cease and desist procedures, the problems of delay got worse. The Byzantine complexity of some cases makes Dickens's *Jarndyce v. Jarndyce* seem like a half-hour in small claims court. The product that most skillfully completed the *cursus honorem* of staff to commissioners to courts, and a favorite of critics of the FTC, was Carter's Little Liver Pills. In 1943 the Commission decided that "liver" should be deleted from the product's name because it had no effect on that organ. This worthy objective was not achieved until 1959, after more than 11,000 pages of testimony and 750 exhibits. It took more than a decade for the Commission to compel the J.B. Williams Company to change the advertising for Geritol.[65]

The Commission had proven incapable of exploiting the opening provided by Wheeler-Lea. To be sure, it was a factor that copywriters had to take into account, but it seemed more an annoyance than a major influence on their output. Its power was more potential than kinetic.

Since 1969, however, a major renovation that had been called for by a wide variety of critics has thrust the Commission into the center of the controversy over advertising's role in American society. It has been attempting with unwonted militance to make consumer-oriented advertising regulation a reality. Its philosophy has been cogently expressed by Commissioner Robert Pitofsky, who has written that "protection of consumers against advertising fraud should not be a broad, theoretical effort to achieve Truth but rather a practical enterprise to ensure the existence of reliable data which in turn will facilitate an efficient and reliable competitive market process."[66] Thus once again the consumer and competition are linked but in an order that indicates modern priorities.

To realize its program, the Commission has launched a vigorous campaign making innovative use of trade regulation rules, affirmative disclosure, advertising substantiation, and corrective advertising. It has encountered criticism in an unprecedented volume from the advertising industry and also from a growing anti-regulatory movement that claims its efforts are costly and counterproductive, but a strong and vociferous consumer movement has provided it with

[65] Young, *Messiahs*, 299. For Geritol, see *J.B. Williams Co. v. FTC*, 381 F. 2d 884 (1967); *U.S. v. J.B. Williams Co.*, 354 F. Supp. 521 (S.D. N.Y., 1973); *U.S. v. J.B. Williams Co.*, 498 F. 2d 414 (2nd Cir., 1974); New York *Times*, January 23, 1973, 3; "FTC turns over Geritol Litigation to Justice Dept." *AA*, December 8, 1969, 8; American Bar Association. Commission to Study the Federal Trade Commission, "Report" (September 15, 1969), 43–44; Edward F. Cox, Robert C. Fellmeth, and John E. Schulz, *"The Nader Report" on the Federal Trade Commission* (New York, 1969), 24, 65–67.

[66] Robert Pitofsky, "Beyond Nader: Consumer Protection and the Regulation of Advertising," 90 *Harvard Law Review* 661, 671 (1977); Interview with Commissioner Pitofsky, October 6, 1978, Washington, D.C.

both prodding and support. Whether one approves of its activities or not, there can be no question that it is now influencing all levels of the advertising process.[67]

What remains to be seen is whether today's standards, which have built on Wheeler-Lea yet are far more demanding, will result in something more than a further refinement of expression in accord with complex legal doctrine. Modern regulation is breaking genuinely new ground. The real question about it is whether it will change the way in which copywriters exploit social values and thus, sometimes unwittingly, reinforce or transform them in the process of selling merchandise. Recently, reformers have been speculating about how, without doing violence to the constitution, the "promise" of advertising may be yet further circumscribed.[68]

[67] Richard S. Tedlow, "Advertising and the Federal Trade Commission: An Historical Overview," (Unpublished paper, author's possession, 1978).

[68] A very interesting example is Note, "Fairness and Unfairness in Television Product Advertising," 76 *Michigan Law Review* 498 (1978).

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A Comparative History of Advertising Self-regulation in the UK and the US*

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Introduction

The purpose of this article is to describe and compare the British and American systems of advertising self-regulation, seeking to identify the factors that were important in determining their present forms. Advertising self-regulation has been an increasingly important topic in many countries in recent years, but there is little literature on its history and development. An understanding of history has a practical value in helping one to understand the present, and facilitating judgements about needed changes in the future. It seems likely that a comparative analysis of circumstances and actions leading to the establishment of the British and US systems of self-regulation may hold lessons not only for the two systems themselves, but also for those of other countries in varying stages of development.

In most "Western", economically developed (non-socialist) nations with a market system, business executives, consumers and government officials usually agree that advertising is a legitimate and important business activity. Thus critics of advertising have tended to call for the control of advertising rather than its abolition. However, critics have not been unified in their opinions and demands for change; nor do they agree on the means to effect change. Some call for increased government regulation, some prefer self-regulation, and others favour a combination of the two.

Business has tended to favour self-regulation over government regulation. Others feel the competitive market system does not protect consumers or sellers adequately — from false, deceptive, misleading or unfair advertising — and they have argued in favour of stronger government regulation. The history of advertising self-regulation is inextricably intertwined with government regulation, or the prospect of it.

Early Pressures for Self-regulation

Although advertising has long been an important business activity in both the UK and the US, concern about advertising self-regulation has largely been a 20th

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century phenomenon. However, there were early developments that played a significant role in guiding later actions.

The UK before 1914

In Britain, publisher William Cobbett took a firm stand in 1800 when he refused to accept medical advertising in his new newspaper, *The Porcupine*. He wrote: "While all other advertisements will be gratefully received and carefully inserted, the *obscene* and *filthy* boastings of quackery will, on no consideration whatsoever, be admitted"[1]. In 1824, according to *The Periodical Press of Great Britain and Ireland*, "Every day there are advertisements offered to English newspapers, that are refused for the personal allusions they make, or the object they wish to accomplish"[2](P. 60). Likewise, Mowbray Morris of *The Times* said the paper would not accept the use of "the name of another person by way of commendation of the advertiser's invention", and when offered an advertisement for a life insurance company with the same name as his paper, was so worried that he sought legal advice on whether to accept[3].

There is also evidence suggesting that the owners of poster sites were exercising a measure of control over displays on their premises. On 15 December 1855, an agreement was drawn up between a railway company and an advertising firm. The company insisted that any advertisement they found objectionable had to be removed within 48 hours[4].

These isolated examples cannot be interpreted as indicating any widespread concern on the part of advertisers, agencies or media with regard to advertising standards. First, the advertising business was not yet organised in a way that allowed concerted action. There were no organisations of advertisers or agencies, and while the Provincial Newspaper Society was founded as early as 1836, a published account of its work based on early records makes no mention of any activities concerned with the regulation of advertising content[5].

Second, there was a lack of sustained criticism against advertising in general to stimulate the business to action. Attacks which came towards the middle of the century were directed against either specific media such as advertising carts which blocked the streets or against abuses such as obscene advertisements. With the exception of medical advertising, the majority of advertisements were probably quite acceptable judged by the standards of the day[6].

During the second half of the 19th century, there were signs of increasing disquiet in advertising circles regarding the enforcement of standards. However, the attitudes of advertisers, agents and media owners on the subject were somewhat different. Advertisers, as a body, expressed little interest in the concept of truth in advertising. Their professional organisation, the Advertisers Protection Society, was set up to safeguard the interests of advertisers in their relations with the media rather than to improve ethical standards[7].

The advertising agent was in a position to exercise control in three ways. He could (a) refuse to act for companies whose activities or products were open to question, (b) ensure the decency and truthfulness of the advertisements he created, and (c) refuse to use media which accepted objectionable advertising. The larger agencies seem in fact to have been remarkably responsible. In 1909, *The Times* stated:

> The day of successful claptrap and vulgarity, still more the day of exaggerated and deceptive misrepresentation, is quickly passing away. So far from these being fostered by advertising agents, the whole tendency of the best and most successful agents is to repress them. Even apparently trivial inaccuracies are on principle excluded from advertising[8].

On the fringes of the business, however, were a large number of small firms and individuals that were incorrigible[9](p. 10).

There was also a wide variation in the attitudes and practices of various publishers. *The Times*, *London Opinion* and the *Daily Mail* went to considerable lengths to protect their readers. *London Opinion* guaranteed a refund in the case of any article advertised in its columns which turned out to be not as represented[10]. The *Daily Mail*, under Lord Northcliffe, banned words such as "rupture" and "constipation", and excluded medical advertisements of any description from pages 1, 4, 5 and 6[11].

Many publishers, however, showed a distinct lack of concern. One of the worst offenders was the *News of the World*, for which there could be no possible excuse since the paper was so overwhelmed with advertisements that it had to hold over a number each week[12](p. 3). The conflict of opinion and lack of resolution on the part of publishers is demonstrated by their reaction to an approach from the Advertisers Protection Society, who wrote to the Association of Advertisement Managers (those responsible for selling space) suggesting a meeting to discuss advertising standards. The reply from the association stated that: "The matter having been thoroughly debated, it was decided that the ills are not so prevalent as was suggested in your letter and that no good could come from a conference on the subject" [13](p. 10).

A major advance towards self-regulation in this period was made by billposters, who were particularly sensitive to criticism and threats of legislation, realising that they would tend to be blamed for an objectionable poster on public display. In 1890, the two leading billposting organisations, the United Billposters Association and the London Billposters Association set up a Joint Censorship Committee. The billposters decided that control from within was preferable to having it imposed from outside, and appointed a committee of six members to act as censors. The scheme, as originally conceived, was entirely voluntary. Posters were not examined prior to distribution, but billposters who received ones they thought questionable could submit them to the committee which could order them to be amended or withdrawn[14].

The aim of the system was to exclude anything which was impure in suggestion, ultra-sensational, or offensive to religious susceptibilities. In general terms, the poster industry's efforts at censorship seemed to have had a beneficial effect on poster content, and was certainly appreciated by the more reputable advertisers, the chairman of the Advertisers Protection Society commenting that "Our hoardings [billboards] are now fit to give pleasure and information to all, and offence to none"[15](pp. 59-60).

The US before 1914

In the 1800s in the US, there were consumer complaints about false or misleading advertising, especially about patent medicines. But it was not until late in the century that any collective effort was made to protect the buying public from the nostrums and quackery that abounded. Interestingly, the earliest efforts were not

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consumer instigated; they came from farm industry magazines. As early as 1859, Orange Judd began exposing fraudulent sellers in his publication *American Agriculturist*. This magazine, along with others such as the *Farm Journal* and the *Rural New Yorker*, led the first major attack on advertising practices by striving to "clean up" the advertising they carried[16, 17].

Until the late 19th century American business had enjoyed a rapid expansion with few restraints. Resources were abundant and seemed inexhaustible. Few seemed to care who was harmed by whom in the great race to success, as long as everyone started with equal opportunities. But such views began to change. Suddenly, resources seemed to be finite, and opportunities no longer seemed equal. Competition became increasingly intense. Moral indignation grew and consumer dissatisfaction increased. Magazines such as *McClure's* became famous for their exposés revealing corruption and fraud in American business.

Advertising did not escape from the surge of calls for reform. Although advertisers who sold reputable branded products were generally truthful and trustworthy, there were cases in which fraudulent claims not only led to consumer monetary loss, but, for a few unfortunates, even to injury and death[17].

Consumer concern about advertising practices spurred a few popular consumer magazines to begin offering readers "guarantees" on products sold by the advertisements they carried. An early example was the *Good Housekeeping* "Seal of Approval". In 1892, the *Ladies Home Journal* announced that it would print no more medical advertising. Other popular magazines and newspapers followed. In 1902, the *Ladies Home Journal* editor, Edward W. Bok, began publishing chemical analyses of advertised medications, and revealed that many of them used regularly by children as well as adults contained such ingredients as morphine and cocaine. The *Ladies Home Journal*, *Colliers* and *Good Housekeeping* joined the farm journals in the movements of reform advertising, and together they helped to fight the battle which eventually led to the passage of the Food and Drug Act of 1906[16, 17, 18].

As early as 1896, business groups had talked about the need for advertising reform. The Sphinx Club of New York was one such body of advertising practitioners. By 1903, increasing consumer dissatisfaction had become such a concern that the club began to address the question of advertising reform. Attacks from various corners led some businessmen to the conclusion that action was needed to ensure the continued success of the advertising business[17]. Some business leaders decided that bad advertising was bad business and consequently spearheaded the reform that was to occur in the first two decades of the 1900s[18].

Government antitrust legislation, which dealt in part with advertising controls, was an important factor in the US environment for advertising. The Criminal Fraud Statute, passed in 1872, was the first federal legislation to recognise explicitly the need for consumer protection[19]. In 1890, the Congress passed the Sherman Antitrust Act, which broadly prohibited restraint of trade and monopolisation of any part of trade or commerce. The many antitrust laws that followed, and the executive agencies to enforce them, provided "needed specifics" to cover continuing problems with particular practices and industries. Although the number of subsequent laws and amendments to them is large, the two that are of greatest importance to advertising are: The Food and Drug Act (1906) and amendments,

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and the Federal Trade Commission (FTC) Act (1914) and amendments.

The Food and Drug Act (1906) was intended to protect against unsafe or adulterated food and drug products. The original Act brought false advertisements of such products under the jurisdiction of the Food and Drug Administration (FDA), especially regarding statement on the safety of food and drug products. Later, the FTC and FDA divided jurisdiction regarding advertising, with the FDA taking responsibility for advertising of prescription drugs and the FTC for advertising of proprietary medicines, as well as food and cosmetics.

From the standpoint of advertising self-regulation, one of the most important features of antitrust law was the focus on preserving competition. This focus meant that business firms could not co-operate of collude in any way that would lessen competition. Thus any industry system to control advertising would necessarily have to be set up in such a way as to avoid the charge that the industry was trying to protect its members from competitive forces[20].

Partly because of a desire to forestall further government actions affecting advertising, and partly because of a genuine interest in improving advertising's reputation and hence its effectiveness, the advertising industry, in the early 1900s, made repeated attempts to organise to regulate itself[20].

In 1904, the National Federation of Advertising Clubs of America decided to pursue the objective of exposing fraudulent advertising; but there was more talk than action. It was not until 1911 that about 100 clubs, meeting in Boston, adopted the "truth in advertising" slogan, and established local "vigilance committees". These heard complaints, reviewed adverts and reported to government authorities those deemed fraudulent. But they had little power to enforce honesty in advertising[16].

Printers' Ink retained Harry D. Nims of the New York Bar to draw up a "model statute", which *Printers' Ink* published in November 1911[16, 18]. The "model statute" enumerated seven "practices that are unfair to the public and tend to discredit advertising":

(1) false statements or misleading exaggerations;
(2) indirect misrepresentation of a product, or service, through distortion of details, either editorially or pictorially;
(3) statements or suggestions offensive to public decency;
(4) statements which tend to undermine an industry by attributing to its products, generally, faults and weaknesses true only of a few;
(5) price claims that are misleading;
(6) pseudo scientific advertising, including claims insufficiently supported by accepted authority, or that distort the true meaning or application of a statement made by professional or scientific authority, and
(7) testimonials which do not reflect the real choice of a competent witness[21].

By 1913, the "model statute" or some parts of it, had been enacted into legislation in 15 states; eventually the total reached 43. However, most of the state "unfair practices acts" were "watered-down" versions of the original. Perhaps the most important departure from the model by most states was that intent to defraud was required before prosecution under the law could occur. Such intent was difficult to provide, and this provision made successful prosecution rare[20].

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Some Comparisons

Prior to 1914 in both countries, the individual media were concerned about false advertising claims, language, policies and practices. The majority of advertisements were acceptable by the standards of the day, but the media recognised that any exceptions affected the credibility of the advertising they carried, and thereby their financial success.

Major advertisers and advertising agencies in both countries were also concerned, but large numbers of small firms and individuals did not seem to have much enthusiasm for exercising advertising control.

In the UK in 1890, two associations set up a Joint Censorship Committee to review poster advertising. In the early 1900s in the US, a club of advertising practitioners concluded that action was needed to ensure the continued success of the advertising business. Government regulation had become a serious threat, and the advertising industry made repeated attempts to organise itself. These were largely unsuccessful, except for the *Printers' Ink* "model statute" published in 1911. Though it was reflected in some state laws, as a practical matter, successful prosecutions were rare.

In general, the groundwork was laid in the US, much more so than in the UK, for greater future dependence on government regulation of advertising. Other US government regulations on antitrust issues, brought about by "competitive" practices of US business, characterised the framework of government regulation that was broader than that which evolved in the UK. Consequently, it is not surprising that later developments would continue to reflect a somewhat greater dependence on government regulation, and somewhat less dependence on self-regulation of advertising, compared with the UK.

The Inter-war Period

Britain, 1919-1939

Considerable efforts were made during this time to improve standards in individual sectors of the advertising business. The Newspaper society, representing the regional and local press, set up its Advertising Department in the late 1920s to advise members on categories of advertisements which they, in particular, were likely to be offered. The Newspaper Proprietors Association, representing the national press, was also able to take a limited measure of regulatory action through its Advertisement Committee. Leading newspapers claimed to turn away a considerable volume of advertising for less reputable patent medicines, though, looking at what was published, we can only wonder at what must have been rejected. The *Daily Mail* continued to exercise high standard, rejecting 634 advertisements in the years 1932-37, either because it had no faith in the value of the goods, or because it believed that certain statements were misleading. *John Bull* magazine operated a guarantee scheme for food advertising under which it analysed samples of all foods for which advertisements were submitted, and compared the results with the advertisers' claims. The *Radio Times* also introduced a scheme in 1932 under which all its medical advertisements were cleared by a panel of doctors|6|.

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In spite of these efforts, however, patent medicines remained a problem. In 1919, 50 of the more reputable medical manufacturers formed themselves into the Proprietary Association of Great Britain to "provide for the establishment of schemes for regulating the conduct of persons, firms or companies engaged in the industry and for precluding the use of inaccurate or misleading practices". In 1936, the association formalised its activities in relation to advertising by introducing a code of standards. Although this was of limited value in the short term because it applied only to members, it was of great long-term significance, because it set a precedent for a section of industry producing a set of rules for advertising to which its members must adhere[22].

The most far-reaching initiative during this period was taken by the Advertising Association (AA), which was founded in 1925. Having as one of its declared aims "To promote public confidence in advertising and advertised goods through the correction or suppression of abuses which undermine that confidence", it initially set up a National Vigilance Committee to deal with misleading advertising. This function was found to be so valuable that the committee's activities were expanded and taken over in 1928 by the newly formed Advertisement Investigation Department. There is no doubt that it helped to drive a number of shady operators out of the columns of the press and did much to introduce a sense of responsibility in the advertising business with regard to claims. By October 1937, it had built up a total of 2,860 confidential dossiers and had dealt with 1,169 enquiries during the previous 12 months.[6].

The US, 1916-1940

In 1916, the vigilance committees that had been established in 1911 were replaced by the Better Business Bureau (BBB). Established and backed financially by business, and working with local, state and national governmental authorities, the BBBs greatest thrust in the fight against false advertising was to show how questionable practices operated against successful business. They represented an attempt to improve business for its own good rather than to protect individual buyers, showing the harm false advertising did to business in general. The BBBs scrutinised business activities to identify improper practices. They consulted with the offending parties and stressed the wisdom of better methods. In most cases in the early years, moral persuasion prevailed and legal action was rarely taken[23].

By the end of the First World War, the BBBs had the co-operation of trade associations and publishers who wanted to improve advertising standards. By the 1920s, the BBBs had been established in most major cities, primarily to halt predatory price cutting and selling of defective merchandise by local retailers, but also to encourage the local press to refuse advertising that was dishonest. However, BBB codes were not enforceable, and much advertising still contained false or misleading assertions and promises[16].

In its early years, the FTC took the view that accurate and truthful information was essential for preserving fair competition and for the proper working of the market economy. Despite the absence of a clear mandate in the advertising area, the FTC took the position that deceptive or misleading claims for an advertiser's product were "unfair methods of competition", since such claims gave the *seller*

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an unfair competitive advantage over those sellers who did not engage in such practices. By 1925, three-quarters of the FTCs orders concerned "false and misleading advertising". However, the question remained whether the FTC could protect *consumers* directly from false advertising without having to demonstrate injury to a business competitor. There were conflicting court opinions on what was meant by preserving competition and protecting competitors. In 1931 the Supreme Court in *FTC v. Raladam* held that:

> The FTC had no authority to ban purely false advertising, unless it could be shown to be an unfair method of competition [injury to competitors]. The Raladam decision prompted Congress in 1938 by the Wheeler-Lea Act to amend the Commission's enabling act to permit regulation of "unfair or deceptive acts or practices in commerce" that injure the consumer[24] (pp. 308-9).

Between 1910 and the 1940s, numerous codes were established by industry and trade associations. Those associations that established codes (in the years indicated) include:

(1) the American Business Press (1910);
(2) the Council of Better Business Bureaux (1912);
(3) the American Association of Advertising Agencies (1924);
(4) the Motion Picture Association of America (1930);
(5) the Distilled Spirits Association (1934);
(6) the Proprietary Association (1934), and
(7) the National Association of Broadcasters, Radio Code (1937)[25].

In the early 1930s, the BBBs were often faced with what came to be referred to as "borderline offences". They were difficult to handle because of the lack of consensus as to just what constituted fraudulent advertising. Especially difficult were the "sophisticated" advertising messages from large national advertisers. In such situations, the small BBBs did not have the resources or the power to effect change. Therefore, in 1925, the National Better Business Bureau (NBBB) was formed. The NBBB received the co-operation of many national advertisers, but the fight against borderline offences continued to be difficult. Effectively, the NBBB did little more than warn offenders of public disapproval, scolding them, and, if necessary, attempting to enlist the aid of the FTC for exceptional violations. But the FTC did not really have the mission to protect consumers against fraudulent advertising until the 1938 revisions of the FTC Act of 1914. It was still widely believed that advertisers could and should control themselves[26].

In their continuing effort to control borderline offences, the NBBB, with the support of major magazines, attempted to set stricter standards. It adopted specific codes of behaviour which it hoped trade associations and individual companies and media would enforce. Not achieving much success, in 1931 the NBBB teamed with *Printers' Ink* and set up committees in an effort to draw advertisers more closely into policing their business. Representatives from the Association of National Advertisers (ANA), the American Association of Advertising Agencies (AAAA), publishers and the general public combined to constitute a Review Committee which was given responsibility to review cases of unfair advertising. The copy codes it adopted in 1932 were generally agreed on by the ANA, the AAAA and

the American Federation of Advertisers (AFA). But these codes did not survive. Co-operation was not achieved and the committee, without the power of enforcement, could do little. The major weakness in the codes was that advertisers would pressure their agencies to violate the code anyway and an agent could do nothing else if he wished to remain in business and survive[26].

Similar codes adopted by trade associations for various industries met with the same fate. The trade associations were reluctant (or unable) to enforce rules on their members, especially in the case of borderline practices. Internal discipline was attained only where infractions were such that all could unite in condemning them[26].

These efforts to enforce codes, however unsuccessful, were at least a declaration of ideals. They were often cited by advertisers as evidence that they were trying to regulate their business. The inadequacy of the Review Committee, and organisations like it, reflected an inability of business associations to enforce internal sanctions on their own members[26].

Publishers were also pressured by the NBBB, advertising trade associations and others to aid in the fight against unfair advertising. And while they accepted the argument that they had a public obligation, they, like the trade and advertising associations, refused to take full responsibility, especially for borderline practices[26].

The attacks on advertising in the 1930s came mainly from consumer organisations and the Government. The consumer movement of that time had its roots in the National Consumers' League, formed in 1916. Until the Depression, consumer groups had consisted mainly of local women's groups which were concerned about high prices and the difficulties they faced in the ever-complex world of the amateur buyer. But the movement flourished as a Depression phenomenon. The 1930s saw the publication of a number of sensational books for a depressed society, such as *Your Money's Worth*. Often mixing truth with false statements, and attacking advertising with unparalleled fanaticism[17], they became part of the mounting pressure for improved standards and objective information.

The furore caused by the consumer movement opened the way for increased Government intervention. In 1933, President Roosevelt brought a number of people into the government who were sympathetic to the critics of advertising. Advertisers became increasingly alarmed at the very real possibility of additional government regulation[17, 26].

In the mid-1930s, the strong tension between the public and the advertising industry was clearly evident, and a number of government Bills, supported by public groups, were introduced in Congress. They met with strong resistance from advertisers and eventually perished[26, 17]. It was not until 1938 that the Wheeler-Lea Amendment to the FTC Act of 1914 broadened the powers of the FTC over advertising, prohibiting "unfair or deceptive acts or practices", which words were interpreted to include false or misleading advertising. In addition to the FTC and the FDA, there were a number of other federal agencies with some power to control advertising, such as the Federal Communications Commission, the Securities and Exchange Commission, the Alcohol and Tobacco Tax Division of the Internal Revenue Service, and the US Postal Office, among others.

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The increased government pressures of these times, along with other factors, also led the National Association of Broadcasters (NAB) to take action. The first radio station had been licensed to broadcast in 1922. By 1929, radio had become an important advertising medium. By 1932, 600 stations had been licensed to broadcast. The NAB, organised in 1922, had, as one of its several purposes, "to do all things necessary and proper to encourage and promote customs and practices which will strengthen and maintain the broadcasting industry to the end that it may best serve the public"[27]. The NAB Radio Code in 1937 covered programme and advertising standards as well as regulations and procedures to apply to NAB members[28]. Although the NAB minimum standards were quite strict, they were accepted by most stations throughout the country, and radio advertising and programming were definitely improved.

Some Comparisons

In the UK, the main progress in advertising self-regulation was made by:

(1) individual media and their associations;
(2) industry associations such as the Proprietary Association of Great Britain (medical manufacturers), and
(3) the Advertising Association (AA) and its National Vigilance Committee to deal with misleading advertising.

The AA membership consisted of associations of advertisers, advertising agencies and advertising media. The AA centralised the control of advertising activities for its member association, in effect for the entire advertising business. These control activities were the forerunner of the current-day UK self-regulatory system.

In the US, the BBBs tried to lead the way to improve advertising practices. Numerous codes of practice were established. But there was no national advertising umbrella organisation, such as the AA in the UK, to take central responsibility, the codes were not enforceable, and served more as a statement of ideals than a practical deterrent to unacceptable advertising. Consequently, the consumer movement attacks on advertising grew. The most successful self-regulatory code was the NAB Radio Code, probably because the potential regulatory threat to broadcasting was greater than to the print media. In any event, government regulation in the US became more important than in the UK, and conversely the conditions for successful self-regulation in the UK continued to be more favourable than in the US.

Post Second World War to the 1970s

Britain

The rationing of newsprint, imposed during the Second World War, continued until 1956. Since television advertising was not permitted until 1955, the print media could be selective until then in terms of the advertisements they accepted or rejected. Stricter standards could be set without provoking complaints or loss of revenue, and the Advertising Association took full advantage of this when it tackled the old problem of patent medicine advertising by publishing its *British Code of*

Standards in Relation to the Advertising of Medicines and Treatments (1948).

From the late 1950s to the mid 1970s there was mounting political and consumerist pressure on the advertising industry to introduce stricter standards. Both the Labour and Conservative Parties were generally sympathetic to the arguments put forward by the consumerist lobby, with the result that, in 1968, advertisers were among those who found their activities greatly constrained by the provisions of the Trade Descriptions Act and the Medicines Act. The Labour Party, however, was particularly hostile. In 1958, a Labour MP, Francis Noel-Baker, called a public meeting which resulted in the setting up of the Advertising Enquiry Committee, an independent watchdog body to monitor advertisers' activities. Then, in 1972, the party published its *Green Paper on Advertising*, in which advertising was condemned for creating an imbalance in the relationship between consumer and producer. It was proposed to remedy this state of affairs by creating a body known as the National Consumers Authority to investigate consumer complaints, and introducing a statutory code of advertising practice to ensure the necessary standards of truthfulness. The authors of the paper felt that many of the problems arose from an excess of advertising expenditure, so it was proposed to disallow 50 per cent of all such expenditure as a deductible expense for tax purposes. In addition, what the party regarded as the unfair allocation of advertising between publications was to be remedied by taxing those which were profitable and using the proceeds to subsidise those which were not[29].

In 1961, the AA published the *British Code of Advertising Practice (BCAP)*, and set up the Code of Advertising Practice *(CAP)* Committee to supervise its operation. Since the committee was formed of representatives of the main industry organisations, critics were not convinced the system could operate impartially. The following year, therefore, the association set up the ASA under the chairmanship of a distinguished academic, Sir Arnold Plant, to oversee the operation of the self-regulatory system. The critics were still not satisfied, however, since the investigation of complaints remained in the hands of the original Advertisement Investigation Department, and the AA still acted as paymaster.

In 1974, Shirley Williams, at that time Minister for Prices and Consumer Protection in the Labour Government, confronted the industry at the Advertising Association's Annual Conference, telling those present quite bluntly that, unless they took satisfactory measures to improve standards, she would introduce legislation to set up a statutory code of practice together with machinery for its enforcement. Her warning caused such concern that, within a few months, the industry had completely overhauled the system of self-regulation, adapting it to the form in which it exists today[30].

The success of the British system is due in large measure to its ability to demonstrate its independence from the advertising industry. The Advertising Standards Authority has an independent chairman appointed in consultation with the Office of Fair Trading, and two-thirds of the authority's Council have no connection with advertising. The authority's functions include the investigation of complaints (carried out by its permanent secretariat), the publication of case reports, advertising to inform consumers how and when to complain, monitoring advertisements and *ad hoc* attitude research.

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In effect, the authority acts as the public face of advertising regulation, while the CAP Committee functions as the industry face. Comprising representatives of 20 industry organisations which have agreed on behalf of their members to implement the Code's provisions, the CAP gives pre-publications advice, arbitrates in disputes between advertisers over claims, and can specify advertisements in certain product categories (for example, cigarettes) for compulsory pre-clearance. The operation of the system is financed by a surcharge of 0.1 per cent levied on display advertising, which is collected by an independent body, the Advertising Standards Board of Finance[31]. A key feature of the system is the participation of co-operation of the non-broadcast media, which refuse to run advertisements found to be in violation of *BCAP*.

It should be noted that advertising on television and radio does not come within the scope of Britain's self-regulatory system. Parliament has set up a statutory body, the Independent Broadcasting Authority, to oversee the operation of non-BBC television and radio. Since the authority's duties include matters related to advertising, it publishes a code of practice (which may therefore be said to have statutory effect) and arranges for the pre-clearance of all commercials to ensure that they comply with the code's provisions[32].

The US

Following the Second World War, additional codes of advertiser, advertising agency and media associations were developed by:

(1) NAB — the Television Code (1952);
(2) the American Wine Association and the Wine Institute (1949), both of which share the same code;
(3) the Outdoor Advertising Association of America (1950);
(4) the US Brewers Association (1955);
(5) the Pharmaceutical Manufacturers Association (1958);
(6) the Direct Mail/Marketing Association (1960);
(7) the Toy Manufacturers' Association (1962);
(8) the American Advertising Federation (1965);
(9) the Direct Selling Association (1960), and
(10) the National Swimming Pool Institute (1971)[25].

Among the most influential of the codes was that of the AAAA, representing a large number of advertising agencies, and the NAB, representing a large proportion of the broadcast media.

The main thrust of the AAAA's code of ethics was to ask all member agencies to agree voluntarily not to produce false advertising. Types of deceptive practices were listed in the code in an effort to define false advertising. Unfortunately, these descriptions of deceptive practices included no examples, and it was difficult to agree on what constituted a violation. Since the enforcement of the code included no punitive power except a remote threat of expulsion from the association, it proved ineffective. Honest advertisers "didn't need it" and dishonest ones "didn't heed it"[33]. However, the AAAA code was widely disseminated and discussed as an "ideal" for the industry, and thereby had an impact on the thinking of the industry.

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The changing conditions of the early 1950s brought new waves of attempts at self-regulation. Television had become a major medium by 1951, with nearly $1 billion spent on TV advertising. The 1952 NAB Television Code was revised several times, with each revision increasing the emphasis on the elimination of deception in commercials and the need for substantiation of claims, while continuing the emphasis on good taste. The three major television networks also joined the effort, and began to pre-screen commercials. Although their limited capacity forced them to be selective, they were an effective force to help eliminate fraudulent advertising[33].

In the 1960s, the NAB control of broadcast advertising became increasingly strict. In the revisions of the code, special efforts were made to protect children, and to control such types of promotions as liquor and lotteries. In many ways, it was stricter than government regulation, for example, by not allowing broadcast advertising of hard liquor. And, while the code allowed advertising of wine and beer, it did not allow a person to be shown drinking these beverages. NAB codes contain numerous other examples of restrictions that deal with matters of taste and decency, which go beyond what is appropriate for government regulation. HAB has had a powerful influence over advertising for 60 years.

Other than in the broadcast media, little effort was made, during the 1950s, to increase self-regulation. The print media seemed reluctant to accept additional responsibility for the truth of the advertisements they carried. And advertising agencies, enjoy a period of rapid growth, acted as if there were no real need to regulate advertising. Puffery and exaggeration were all too often seen as the keys to advertising success and few advertisers seemed concerned[33]. Consequently, in the late 1950s, consumers again grew increasingly upset with advertising and, once more, became a significant force for further regulation. Growing concern also began to develop again among advertisers. As consumers voiced their dissatisfaction and more pressure was put on Congress to act, advertisers began to seek means of further self-regulation so as to avoid government intervention[33].

In 1960, several advertising associations gathered together to try to establish a self-regulatory system. The AAAA, the AFA, the Association of Better Business Bureaux (ABBB) and the NBBB decided to work together. The BBBs set up review boards to police deception by local advertisers, and deceptions in national advertising were reported to the NBBB[33].

The advertising industry was split on what to do about the growing pressure from both consumers and the Government. Some advocated further self-regulation to avoid government intervention, while others argued that more controls of any kind would inhibit creativity. In June 1960, the AFA and the AAAA established a four-part self-control programme. A rule book was created called the *Truth Book*. It helped advertisers and agencies to identify deceptive adverts, as well as set out guidelines to honest advertising. Unfortunately, although the intricate and well-designed programme was promising, it failed because it lacked any means of enforcement[33].

In sum, the industry was not successful in obtaining the co-operation of the less scrupulous advertisers, the Government's opinion of self-regulation was

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negative, and, in the 1960s, demand for honesty in advertising reached a new peak. More than a dozen books appeared which were generally critical of business and especially of advertising[19]. Consumers became increasingly aware of advertising "abuses", and there was widespread sentiment for corrective action.

Those in Government reacted. In 1962, President Kennedy had declared that every consumer has four basic rights — the right to be informed, the right to safety, the right to choose and the right to be heard. He urged strong legislation to protect these rights. He also formed the first Consumer Advisory Council and appointed ten private citizens to serve on it[19].

In 1964, President Johnson named the first Special Assistant to the President for Consumer Affairs. In 1969, President Nixon asked Congress to pass a "Buyer's Bill of Rights", and called for the establishment of a new Division of Consumer Protection within the Justice Department. When these proposals did not fare well in Congress, President Nixon proposed a Consumer Product Safety Act, a Consumer Fraud Prevention Act, a Fair Warranty Disclosure Act, and a National Business Council for Consumer Affairs within the Commerce Department. At the same time, by Executive Order, he created the Office of Consumer Affairs in the Executive Office of the President. This office was given responsibility for analysing and co-ordinating all federal activities in the field of consumer protection[19].

More than 25 major Acts affecting advertising directly were passed by the US Congress between 1960 and 1972[19]. They included such well-known legislation as:

(1) the Kefauver-Harris Drug Amendment (1962);

(2) the Fair Packaging and Labelling Act (1966);

(3) the Child Protection Act (1966);

(4) the Cigarette Labelling Act (1966);

(5) the Consumer Credit Protection Act (1968);

(6) the Child Protection and Toy Safety Act (1969), and

(7) the Public Health Smoking Act (1970).

In April, 1966, 33 consumer organisations met in Washington, DC "to develop closer understanding and unity in lobbying for consumer measures . . ." In 1967 the Consumer Federation of America (CFA) was formed, and soon included as members about "200 national, state and local consumer groups, labor unions, electric cooperatives and . . . other organizations with consumer interests . . ." And private product testing organisations such as "Consumers Union" and "Consumers' Research, Inc. continued to grow in importance, as did many new consumer publications"[19].

To forestall additional Government initiatives, the advertising industry reacted by establishing the NAD/NARB self-regulatory system in 1971. The AAAA, AAF, ANA and the Council of Better Business Bureaux (CBBB) designated the already existing NAD of the CBBB as the investigatory body and the NARB as the appeals body. Funding was provided from general funds of the CBBB contributed by Member Companies[34] (p. 26). The goals and purposes of the system were

expressed in terms that conveyed the clear intent to improve advertising and thereby to serve consumers and society. The advertising industry adopted a genuine consumer orientation stance as a matter of enlightened self-interest. The system operated to receive complaints or enquiries, determine the issues, collect and evaluate data, negotiate agreements with advertisers to resolve complaints, and to permit appeals of any remaining disputes to the NARB, a body that included one public member on each five-member appeal panel[34]. In 1974, the system added a Children's Advertising Review Unit (CARU), with a special set of guidelines to apply stricter rules to advertising seen by children.

It is noteworthy that the NAD/NARB/CARU system continues to flourish as an important part of the regulatory framework, interacting effectively with the Government and public interest organisations. However the NAB codes were attacked successfully on antitrust grounds in the late 1970s and are no longer enforced. These events have been reported elsewhere[34,35] and need not be repeated here.

Some Comparisons

The economic and social conditions in Britain in the years following the Second World War were very different from those in the US. The shortage of advertising space in the print media, due to the continuation of newsprint rationing and the absence of broadcast competition until 1955, allowed media to exercise firm control over advertising content. The end of newsprint rationing and the advent of commercial television created a situation in which the media were once again competing for revenue. Inevitably, standards began to slip, with the result that, in the 1950s, there was mounting pressure for reform. It was eventually the spectre of Government intervention that prompted the setting up of the self-regulatory system in its present form, and the provision of funding in a way that ensured that the machinery of enforcement operated independently of the advertising industry. The involvement of the media from the outset ensured that sanctions could be applied effectively.

In contrast, in the US, additional industry, media and advertising agency association codes were developed, but were relatively ineffective. A decade of consumer legislation in the 1960s included many laws which controlled advertising. These conditions finally led to the formation, in 1971, of the successful NAD/NARB system.

In the US, there was no umbrella organisation, such as the AA, to pull together the associations of advertisers, agencies and media. The inclusion of the media in the ASA/CAP systems and their exclusion in the NAD/NARB/CARU system, meant that effective enforcement was possible in the UK, and relatively less so in the US. Moreover, the previously effective NAB codes in the US were discontinued for antitrust reasons in 1982, confirming the limited opportunity in the US for a self-regulatory system to use the media for enforcement.

Conclusions

In both the UK and the US, it was because of increasing political pressure and restrictive legislation that the advertising industries established the systems that exist today.

A Comparative History of Advertising Self-regulation in the UK and the US

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Historically, business and consumers have felt that the advertising industry has the responsibility to regulate itself. But the British system evolved, with adequate financing and enforcement powers, to a fuller extent than the US system. Government regulation continues to play a somewhat greater role in the US, partly because of the realistic fear of antitrust actions against advertising industry and media co-operation.

The ability of the British system to enforce sanctions through the media has given credence to the concept of self-regulation, and helped to create a balance that is generally accepted by business, consumer organisations and the Government. There are still ominous rumblings on the political left, however, and the situation may change in the future under a Labour administration. The balance is quite different in the US, where the self-regulatory system necessarily excludes the media, and the system operates without a comprehensive and enforceable advertising industry code of practice, depending therefore to a greater extent on voluntary compliance *vis-à-vis* the threat and actuality of Government actions.

In general, the comprehensive long-term "climate" in the UK seems to have been more favourable for advertising self-regulation in the UK than in the US. The "climate" in the US, by contrast, seems to have led to a balance weighted relatively more heavily toward Government regulation of, or at least influence on, advertising practices.

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Part II
Channels of Distribution

A Wholesaling

[11]

Excerpt from Harold Barger, *Distribution's Place in the American Economy since 1869*, 65–79.

CHAPTER 5

The Changing Channels of Distribution

IN this chapter we shall give a preliminary account of the manner in which we reached the results in Chapter 4. We shall indicate the kind of data used, the conceptual framework, the main classifications, and the principal limiting assumptions. Our debt to the pioneer work of Simon Kuznets will be obvious, and indeed our own work in this field is in large degree no more than a revision and extension of Parts III and IV of his *Commodity Flow and Capital Formation*.[1]

The scope of the analysis, as explained in Chapter 2, is confined to the distribution of finished goods and construction materials whose eventual outlet is some kind of retail store.[2] Of course some finished goods do not enter the distribution system at all: food produced and consumed on farms and industrial equipment built to order are examples. In any case, before being handled by a distributor, the commodity will normally incur transportation costs. The actual distributors can be fairly well divided into wholesalers and retailers. Some commodities move directly from producer to retailer; others are handled by one or more wholesalers and then by a retailer. We assume throughout that wholesalers do not sell to ultimate consumers.[3]

[1] Simon Kuznets, *Commodity Flow and Capital Formation*, National Bureau of Economic Research, 1938.

[2] The expression "retail store" is to be considered to include restaurants, bars, lumber yards, automobile salesrooms, farm-implement dealers, and other retail outlets not ordinarily called "stores." The definition is substantially that of the 1929 census of retail distribution (see Appendix Table B-7).

[3] More specifically, we treat such goods (like unfinished commodities handled by wholesalers) as if they did not enter the distribution system at all. To drop this restriction would greatly complicate the analysis and could add little to the accuracy of our reconstruction of history, for we have no data wherewith to estimate any variation in the importance of wholesale sales to ultimate consumers prior to 1929. According to Kuznets, such sales of finished goods amounted to $2.4 billion in 1929 (retail sales were $48 billion), but most of this was industrial equipment. Our coverage of consumer goods is much higher, for we neglect only about $700 million wholesale sales of consumables.

COST OF DISTRIBUTION

The Flow through the System, 1869–1929

The input into the distribution system consists, then, of all finished goods and construction materials eventually to be sold through retail stores, valued at a price including transportation costs from producer to original distributor. (Such costs, although estimated by us, are not to be included in the gross distributive margin.) Where the original distributor is the retailer, the goods increase in value by the retail margin alone. Where the goods are handled by one or more wholesale intermediaries, value is increased by the appropriate wholesale margin (or margins), and the cost to the retailer becomes the sales value of the (last) wholesaler. Transportation costs between wholesaler and retailer are imputed to the wholesaler and are (in principle at least) included in the wholesale margin, just as retailers' delivery costs are ordinarily a part of the retail margin. The gross distributive margin or spread, or value added by distribution, is the difference between the final or retail value and the value of the input into the distribution system.

As indicated in Chapter 4, the calculations were carried out in two segments overlapping in 1929. For 1929 and prior decennial census years we used the commodity output method. We began with producers' values and added transportation costs and distributive margins to obtain estimates of retail value. In an alternative calculation for 1929, and for 1939 and 1948, we used the volume of sales method, i.e. we began with retail sales and worked back to the value of the input into the distribution system. Use of retail census data for 1929, 1939, and 1948 made the latter procedure possible; the former was made necessary by the absence of census data prior to 1929. For both calculations, the requirements are (1) information about margins realized by different types of wholesaler and retailer and (2) knowledge as to the amounts of goods flowing through different distributive channels.

For both calculations the key classification consists of the 32 types of retail outlet through which commodities may reach the ultimate consumer. We also worked with 20 kinds of wholesaler; finished output in the hands of producers comes in 27 commodity groups; and each commodity group may be supplied by several distinct industries. The possible (and, to speak strictly, the actual) complications are therefore immense. A given channel through which a commodity is distributed will lead from an industry through a wholesaler or directly to a retail outlet. In principle, therefore, we have at least $32 \times 20 \times 27$, or 17,280 possible channels, and in fact a great many more, since many commodities are supplied by more

than one industry. Of course, were we to construct a table with the indicated number of cells, many of them would be nearly or completely empty.

In fact drastic simplification obviously was necessary. It was assumed (1) the distribution of sales of manufacturing plants for any product group could be approximated by the distribution of sales of some one industry or small group of industries; (2) if handled by a wholesaler, the wholesale channel was determined by the eventual retail outlet, i.e. any given type of retailer was supplied by only one of our 20 types of wholesaler.[4] By this means possible channels involving wholesalers are reduced to 32×27, or 864; since in each case the wholesaler may be bypassed, the possible number is twice as many, or 1,728. This is the number of cells in our basic table; however, more than half of them are empty. The flow of a commodity group from producer to final consumer is illustrated diagrammatically in Chart 3.

The full calculation, including the reclassification of commodities according to the kind of store that retails them, was carried out for census years 1869 through 1929. We began with Shaw's commodity data in producers' prices [5] and distributed each minor commodity group into three portions: (1) amount passing to some retailer direct, (2) amount passing to some retailer through wholesale channels, and (3) amount not distributed through retail stores. Next we reclassified amounts (1) and (2) on a kind-of-store basis and summed over-all commodity groups for each kind of store. Multiplication of amount (2) by the relevant wholesale markup and addition of (1) yielded the total purchases of each kind of store; multiplication by the retail markup gave an estimate of retail sales separately for 32 types of retailer. For 1929 the threefold distribution of commodities comes (with minor modifications) from Kuznets, *Commodity Flow*, Part III, which in turn is largely based upon the Census Bureau's *Distribution of Sales of Manufacturing Plants*. The reclassification of commodities upon a kind-of-store basis makes use of the cross-classification in the 1929 retail census. The projection of these two types of data—the threefold distribution for the output of each commodity, and the commodity–store cross-classification—back to 1869 is discussed in Appendix B. The derivation of wholesale and retail margins for the entire period is explained in Chapter 6.

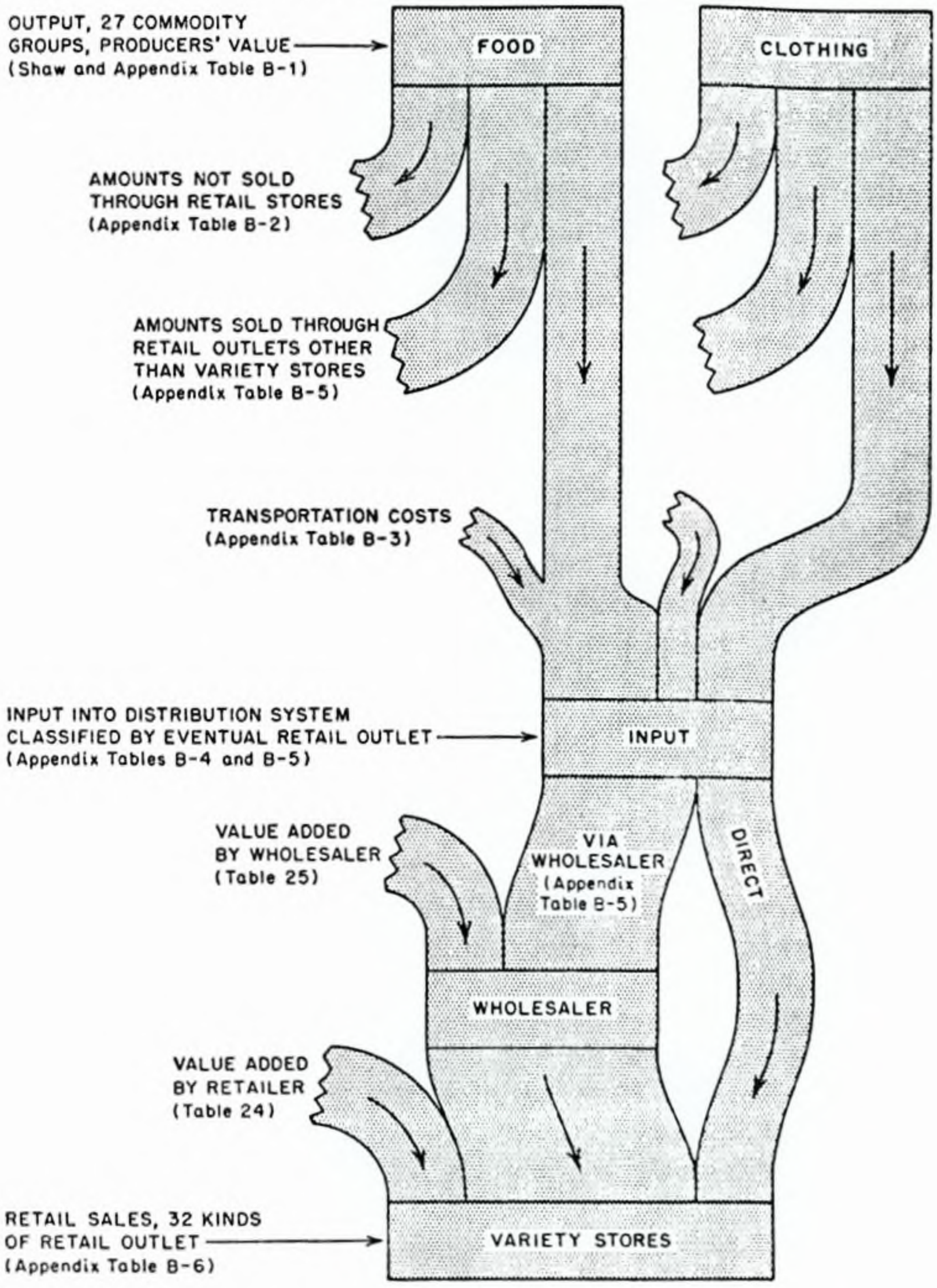
[4] Plainly grocery stores buy little from any but a grocery wholesaler. In a few cases (e.g. country general stores) we used an average wholesale markup for the several types of wholesaler from whom purchases probably were made.

[5] William H. Shaw, *Value of Commodity Output since 1869*, NBER, 1947.

COST OF DISTRIBUTION

Chart 3

THE CHANNELS OF DISTRIBUTION



Note: Horizontal distances measure dollar volumes; vertical distances lack significance.

For 1929, 1939, and 1948 a simpler procedure could be used, for retail sales by kind of store for these years are furnished by the census. Division by the markup yields retailers' purchases; for each type of store the latter were separated between purchases direct

from producer and purchases from a wholesaler; the second amount was divided by the wholesale markup and added to the first amount, yielding the input into the distribution classified by eventual retail outlet. For 1939 and 1948 we did not carry the calculation beyond this point, so that we do not have figures for these years on a commodity basis.

The magnitudes of the various flows in current (and in 1869 in paper) dollars are shown in Table 20. More detailed results by type of store are given in Chapter 7.

Rise and Decline of the Wholesaler

Among trends reflected in Table 20, perhaps the most interesting is the rise and decline of the wholesaler. Wholesaling reached its fullest scope during the early years of our period, and most of the story to be told here relates to its decline.

Although we do not offer any figures for years prior to 1869, there is abundant evidence that during the first half of the nineteenth century wholesaling in the United States grew more rapidly than commodity production in general or than retailing.[6] The first wholesalers were importers and were largely confined to the eastern seaboard. In the early days of the republic, domestic production for sale, if not actually undertaken by the retailer himself, was for the most part so highly localized that no middleman between producer and retailer was necessary. As the scale of production grew, as markets expanded geographically, and as commodities became more specialized, the scope for wholesaling was correspondingly enlarged. Frequently firms that had originally combined wholesaling and retailing in a single operation, selling both to consumers and to the trade, came to specialize in one branch or the other.[7] By the opening of our period the distinction between the two branches of distribution already was tolerably clear cut.

To neglect many crosscurrents, we may say that as producers grew bigger they had more need of wholesalers. For the manufacturer, the task of selling at greater and greater distances to ever larger numbers of retail outlets—the task, that is, of himself exercising the wholesale function—grew more and more burdensome. To cope

[6] See for instance Theodore N. Beckman and N. H. Engle, *Wholesaling*, Ronald, 1937, Chap. IV.

[7] Such specialization probably was hastened by the retail trade associations which became common in the 1880's. They pressed their members not to buy from jobbers who sold at retail and normally excluded such firms from membership. However, as late as 1885 the Retail Grocers Association of Grand Rapids failed to exclude one Arthur Meigs for the sin of jobbing on the side, and at that date several members of the local retail druggists' association were wholesalers (*Michigan Tradesman*, December 9, 1885, p. 4).

Table 20

THE FLOW THROUGH THE DISTRIBUTION SYSTEM, 1869–1929 [a]

	1869	*1879*	*1889*	*1899*	*1909*	*1919*	*1929*
				(*billions of dollars*)			
Values:							
1. Output in producers' prices, relevant commodities [b]	3.6	4.1	5.9	7.4	13.3	33.8	39.4
2. *Of which,* amount sold through retail stores	2.6	3.1	4.6	5.9	10.7	27.7	31.8
3. Freight charges, producer to initial distributor	0.2	0.3	0.3	0.4	0.6	1.4	2.6
4. Input into the distribution system (lines 2 + 3)	2.8	3.4	4.9	6.4	11.3	29.1	34.4
5. *Of which* { via wholesalers	1.9	2.4	3.5	4.3	7.4	18.3	20.5
6. { direct to retailers	0.9	1.0	1.5	2.0	3.9	10.8	13.9
7. Value added by wholesalers	0.4	0.5	0.7	0.9	1.6	3.9	4.4
8. Retailers' purchases (lines 5 + 6 + 7)	3.2	3.9	5.7	7.3	12.9	33.0	38.8
9. Value added by retailers	1.0	1.2	1.9	2.6	4.9	12.9	15.8
10. Retailers' sales (lines 8 + 9)	4.1	5.1	7.6	9.8	17.8	45.9	54.7
				(*per cent*)			
Percentages:							
11. Sold through retail stores (line 2 ÷ line 1)	71	77	78	80	80	82	81
12. Via wholesalers (line 5 ÷ line 4)	69	70	70	68	66	63	60
13. Wholesale markup (line 7 ÷ line 5)	20.5	20.8	20.9	21.0	21.4	21.4	21.6
14. Retail markup (line 9 ÷ line 8)	30.3	31.8	33.5	35.5	38.1	38.9	40.7
15. Combined markup (lines 7 + 9 ÷ line 4)	48.6	50.9	53.1	54.8	57.5	57.5	58.8

[a] For sources, breakdowns of data, and methods of estimation, see Tables 24 and 25 and Appendix B.

[b] All commodity groups, any part of which is distributed through a retail outlet; i.e. consumables plus office furniture, business vehicles, tools, farm implements, and construction materials. Data comprise output for domestic consumption plus imports (William H. Shaw, *Value of Commodity Output since 1869,* National Bureau of Economic Research, 1947), adjusted to include federal liquor taxes, state gasoline taxes, and firewood (items omitted by Shaw).

with the task, either he opened branch warehouses and organized a more or less autonomous sales division or he sold through wholesalers. Since we follow census practice in counting manufacturers' sales branches as a form of wholesaling, the outcome in either case was a growth of wholesaling.

So much for the growth in the size of the producer. By contrast, the growth in the size of the retailing unit at a somewhat later date had the opposite effect. Any retailer who sold a very large quantity of a single line of goods tried sooner or later to buy direct from the factory. Thus the rise of the department store, the specialty outlet, and the chain store checked the growth of wholesaling. Large-scale retailing—and above all specialty retailing—is an urban affair, so we may say that urbanization restricted the scope for wholesaling.

At what date wholesaling reached a peak and started to decline is a matter for speculation. Of the flow of goods through the distribution system, a larger fraction passed through wholesale channels and a smaller fraction went direct to the retailer in 1879 than before or after that date, according to our figures (Table 20). But a perusal of Appendix B will reveal both how uncertain is the date quoted and how various are the trends to which individual kinds of wholesaling were subject.

Certainly the peak of wholesaling came in the less industrialized West—and especially on the Pacific Coast—later than in the East. Study of the business history of middle western cities shows how, in their early growth, retailing and wholesaling were combined; how retail functions of the bigger merchants were sloughed off as they specialized at jobbing; how in some trades (e.g. shoes) jobbers became manufacturers; how, as the city grew, the larger retailers began to buy direct from the factory; how the appearance of chain stores and mail order houses also reduced the scope for jobbing.[8]

Since the Civil War, indeed, the independent wholesaler has himself become more specialized. The early jobbers were "general-line" firms that handled staples and specialties alike. As the range and variety of products increased, "specialty" wholesalers appeared, handling only some of the items that their retail customers might need. Many engaged in minor manufacturing, e.g. the roasting of

[8] Sometimes we can date these phases. For instance, in 1864 the first Grand Rapids grocer gave up retailing in favor of the wholesale business; by 1866 the city had wholesale dry-goods and wholesale shoe houses as well (*Michigan Tradesman,* April 18, 1888, p. 4). Again, in 1880 St. Louis was still a center for the wholesale distribution of shoes made in New England, but by 1900 most St. Louis jobbers had become manufacturers (*Leather Gazette,* 1886–1888, *passim; Shoe and Leather Gazette,* February 20, 1902, p. 17; March 30, 1903, p. 22).

coffee, the grinding of spice, the making of baking powder, jams, jellies, extracts, and even soap.[9] Since their prime function remains that of wholesaling products made by others, the census counts such activities as a form of distribution, and so must we.

The movement toward specialty wholesaling was also stimulated by the growing use of brand names and the abandonment of packaging by the retailer. Sometimes the brand name and the package were designed by the factory but sometimes too they were the invention of the wholesaler. Specialty wholesalers' margins generally are higher than those of general-line wholesalers, a fact which complicates the derivation of margins for wholesaling at large.[10]

The disappearance of the independent wholesaler has frequently been predicted.[11] Although he is still with us, his decline has been somewhat more rapid than might be inferred from the data in Table 20. For in many trades—notably manufactured food products, shoes, vehicles, and farm implements—factories have established branch warehouses during the past five or six decades that have taken the place of the regular jobber.[12] Since we count such branches as a wholesale channel, the decline in wholesaling reported in Table 20 means that the rise of manufacturers' sales branches failed to compensate fully for the decline of the independent wholesaler. Retailers bought a larger fraction of their needs direct from the factory, as well as through sales branches. The evidence for these generalizations and many individual exceptions to them will be found in Appendix B.

For department stores, chain stores, and mail-order houses to bypass the wholesaler was not clear gain: some wholesaling functions they had themselves to assume. Yet the competitive advantage they derived, either from buying direct or from economies in retailing, were sufficient soon to give them a growing share of the market and to astonish merchants engaged in more traditional types of trading. It is worthwhile to examine the differential impact of the newer methods of distribution and to observe the reaction of inde-

[9] *American Grocer,* March 13, 1907, p. 8; *Confectioners' and Bakers' Gazette,* December 1909, p. 23.

[10] See note *b* to Table 25 in Chapter 6 and Appendix B. On specialty wholesaling in general, see Beckman and Engle, *op.cit.*, Chap. 11.

[11] "Years ago the jobber was a necessity; now, business methods, we all know, have changed, so much so that the time is not far distant when the jobber's necessity will cease to exist, and he will, of course, have to take a back seat among the has-beens" (*Grocery World,* April 24, 1899, p. 20).

[12] Branch houses, like direct selling from factory to retailer, were partly motivated by the unwillingness of jobbers to pioneer new brands (see *American Grocer,* July 12, 1905, p. 8; *New England Grocer,* February 2, 1906, pp. 14–16; *Hardware Review,* June 1909, pp. 32–33).

pendent wholesalers and retailers to their changing environment. We shall limit the discussion to the four areas which once were the traditional preserve of the independent wholesaler—drugs, dry goods, groceries, and hardware.

Already during the opening years of the present century, dry-goods merchants felt the competition of the department store, and the hardware trade complained bitterly of the wickedness of "catalog houses." Hence came efforts to impose special taxes on department stores and to prevent the introduction of parcel post. Neither the drug trade nor the grocery trade were seriously disturbed by merchandising innovations until after World War I. During the 1920's, however, competition of the private brands of department stores and drug chains, neither of which used regular jobbing channels, became a serious matter for the independent druggist. During the 1920's, also, the impact of grocery chains first was seriously felt by the independent grocery store.[13] As before, the independents reacted by pressing for legislative curbs upon the interlopers—especially chain-store taxes and resale price maintenance.

Another reaction to the impact of the newer competition was a partial imitation of its methods. Since about 1890 small retailers have from time to time experimented with cooperative buying; buying exchanges, groups, or syndicates; and even cooperatively owned warehouses. The motive was to buy cheaper, by buying in quantity and by eliminating the jobber's selling expense. Naturally such moves were no help to the jobber. But wholesalers reacted too, by opening cash-and-carry departments and by organizing their retailer customers into "voluntary groups" or "voluntary chains." The latter plan usually involved cooperative advertising of jobber-sponsored brands. In addition, wholesalers seem to have pressed upon their retailer customers the need for better accounting and the introduction of self-service.

The 1929 census of distribution did not collect data on these activities, but the sales of wholesalers with stocks are reported for 1939 in Table 21. Cash-and-carry wholesalers resemble regular wholesalers except that they do not furnish credit or delivery. Wagon distributors carry a limited line and usually sell only for cash. Voluntary group wholesalers are jobbers who have organized their retailer customers into voluntary groups or chains; commonly they continue to furnish both credit and delivery. Retailer-cooperative warehouses are owned by groups of retailers and normally deliver but do not supply credit. Among the categories just mentioned, at least the first,

[13] These statements rest upon a survey of the trade press. Specific documentation within reasonable compass is difficult, but some references are given below.

third, and fourth represent attempts to cut the cost of wholesaling—attempts induced by the competition of mail-order houses, chain stores, and other such innovations. Especially in large cities, retailers have also rather frequently combined in buying groups or syndicates without regular warehousing facilities. Thus far no census has attempted to cover groups of this character, many of which are quite informal.

Table 21

DISTRIBUTION OF WHOLESALE SALES, FOUR KINDS OF BUSINESS, BY TYPE OF OPERATION, 1939 [a]

	Drugs	*Dry Goods*	*Groceries*	*Hardware*
		(*millions of dollars*)		
Total sales, wholesalers with stocks [b]	780	958	6,387	614
		(*per cent*)		
Percentage distribution of above:				
Regular wholesalers [c]	69.5	78.1	49.0	92.5
Manufacturers' sales branches	25.9	21.9	36.5	3.9
Cash-and-carry wholesalers	0	0	1.1	0
Wagon distributors	0	0	0.5	0
Voluntary group wholesalers	0.8	0	10.4	2.1
Retailer-cooperative warehouses	3.8	0	2.5	1.5
Total	100.0	100.0	100.0	100.0
		(*millions of dollars*)		
For comparison:				
Retail sales of stores in classifications named above	1,563	713	8,210	782

[a] All data from *Census of Business, 1939.*
[b] Except chain store warehouses.
[c] General line and specialty, including importers.

The data in Table 21 offer sharp contrasts whose significance we shall now attempt to assess. In the case of drugs the branding of proprietary goods has long rested rather securely with the manufacturer on the basis of national advertising. This fact deprived jobbers of one motive for organizing voluntary chains. Retailer-cooperative warehouses have played a somewhat larger role in the drug business, although their history has been a chequered one. Prior to 1907 they were practically unknown, for the National Wholesale Druggists Association, founded in 1876, introduced the "rebate contract" plan in 1881. The Association induced manufacturers of proprietary goods to respect its black list of jobbers who cut prices, or sold to retailers who cut prices, fixed by the factory. In some instances, at least, jobbers were held in line through deferred payment of rebates or trade discounts. The contracts further provided that the

manufacturer might not sell direct to retailers or retailer cooperatives. The rather tight control of wholesaling by the Association at this period is to be explained by the plethora of manufacturers and of retailers in comparison with the paucity of jobbers.[14] Indeed the jobbers even induced the National Association of Retail Druggists, soon after its foundation in 1899, officially to condemn cooperative buying by retailers.[15] However, in 1907 the contracts had to be abandoned in consequence of a consent decree under the Sherman Act signed in the United States District Court at Indianapolis.[16] The retailers' association promptly reversed itself, now encouraged cooperative buying by its members, and four years later heard its president claim that "the growth and development [of the National Association of Retail Druggists] has largely made possible the success of the many cooperative associations for buying goods." [17] Certainly independent druggists, especially in the Midwest, found "cooperative wholesale houses" a weapon with which to fight the department store, and they seem to have risen rather rapidly to something like their present modest position.[18] After World War I the further growth of cooperative wholesaling seems to have been checked by the partial success of the jobbers in again inducing manufacturers to discriminate against cooperatives as they still did against individual retailers: such discrimination was upheld in the unsuccessful prosecution of the Mennen Co. under the Clayton Act.[19]

Table 21 shows that in 1939 independent wholesalers and manufacturers' sales branches still covered the entire dry-goods field. The absence of voluntary chains or cooperatives reflects the decline of the traditional dry-goods store: dry goods had ceased to be a distinct trade whose dealers might be organized into chains or cooperatives. Most stores classified as dry goods in 1939 actually were general merchandise stores which bought from many kinds of wholesalers. Dry-goods jobbers in turn sold to country general stores and to some extent to department, variety, and clothing stores, as well as to dry-goods stores.

Table 21 shows that voluntary chains and cooperatives are most

[14] See *Proceedings* of the National Wholesale Druggists Association (annual), *passim.*

[15] *National Druggist,* October 1905, p. 313.

[16] *American Druggist,* September 23, 1907, p. 197.

[17] *American Druggist,* September 25, 1911, p. 42.

[18] Trade estimates placed the sales of cooperative drug wholesalers at $40 million in 1919 (*American Druggist,* September 1921, pp. 11–13) and in 1926 somewhat higher (*New York Pharmacist,* June 1927, p. 18), compared with only $30 million for 1939 (in Table 21): but the earlier estimates may have included buying syndicates without stocks.

[19] National Wholesale Druggists Association, *Proceedings,* 1923, pp. 270–273.

prominent in the grocery trade. The San Francisco Retail Grocers Association ran a jobbing department as early as 1895,[20] and buying syndicates were popular with retail grocers by 1910. Yet most of the growth, especially of jobber-organized chains, appears to have occurred after World War I. Trade sources are agreed that cooperative buying and voluntary chains were a reply during the 1920's to the spread of the grocery chain and during the 1930's to the advent of the supermarket. Large-scale buying by the corporate chains could be matched, in part, through cooperative purchases by the independents. But self-service to match the supermarket meant reequipping the store: the jobber could help with pressure, advice, and credit, if need be. The growth of the voluntary group of retailers, jobber organized, in preference to the retailer-owned cooperative is partly to be explained on this score. Its other main attraction for the jobber is the opportunity it affords him to exploit his private brand. Only in the grocery trade were jobber-controlled brands effective.

With respect to the minor role played by cooperative buying and group wholesaling, hardware resembles the drug trade. Group buying seems to have begun shortly before World War I. To judge from trade discussion, the lack of staple lines seems to have been the main obstacle. Thus hardware items are so specialized that few retailers would trust their buying to an agent: staples, such as nails, do not apparently play a large enough role to make cooperative buying worthwhile. Again, except in a few items like tools, brand names have never meant much to the buyer of hardware; hence the wholesaler was scarcely tempted to group his retailer customers in order to promote his own brand.[21]

To summarize: We have suggested that the large variety of commodity lines involved somewhat discouraged voluntary chains or cooperatives in the case of drugs and hardware, and that the tight hold of wholesalers over the distribution of proprietary articles made innovation difficult in the former field. It seems likely too that the competitive pressure of the grocery chain upon the independents in the grocery field was not matched elsewhere—for we have noted that drug chains had no striking advantage, and (although variety chains spread rapidly) hardware chains were unknown.

Data for 1948 can be assembled only for the grocery trade. Table 22 shows that group wholesaling and cooperative warehouses had grown still further, at the expense of manufacturers' sales branches.

[20] *American Grocer*, January 22, 1902, pp. 36–38.

[21] See, e.g., *National Hardware Bulletin*, 1909–1914, *passim*.

CHANNELS OF DISTRIBUTION

Table 22

DISTRIBUTION OF WHOLESALE GROCERY SALES, BY TYPE OF OPERATION, 1935, 1939, AND 1948 [a]

(*per cent*)

	1935	*1939*	*1948*
Regular wholesalers [b]	57.8	49.5	50.5
Manufacturers' sales branches	37.9	36.5	30.1
Cash-and-carry wholesalers	0.9	1.1	1.2
Voluntary group wholesalers	1.6	10.4	13.4
Retailer-cooperative warehouses	1.9	2.5	4.8
Total	100.0	100.0	100.0

[a] All data from *Census of Business, 1935, 1939,* and *1948*. The table includes all forms of wholesaling in which stocks are carried, except chain store warehouses. Data are from the census of distribution. Table does not include wholesaling of meat or dairy products.

[b] General line and specialty, including importers and wagon distributors.

The Flow through the System, 1929–1948

The story told in Table 20 for the period prior to 1929 is brought up to date in Table 23. As already explained, the method here is reversed, figures in upper lines of the table being derived from figures in the lower, and not (as in Table 20) lower lines from upper. Thus "retailers' sales" in Table 23 are essentially as shown in the census of distribution, and "retailers' purchases" and components of input

Table 23

THE FLOW THROUGH THE DISTRIBUTION SYSTEM, 1929–1948 [a]

	1929	*1939*	*1948*
		(*billions of dollars*)	
Values:			
1. Input into the distribution system	29.4	25.5	78.9
2. Of which { via wholesalers	17.3	14.5	45.4
3. { direct to retailers	12.2	11.0	33.6
4. Value added by wholesalers	3.7	3.1	9.7
5. Retailers' purchases (lines 2 + 3 + 4)	33.1	28.6	88.6
6. Value added by retailers	13.3	12.1	37.4
7. Retailers' sales (lines 5 + 6)	46.4	40.6	126.0
		(*per cent*)	
Percentages:			
8. Input via wholesalers (line 2 ÷ line 1)	59	57	57
9. Wholesale markup (line 4 ÷ line 2)	21.4	21.3	21.3
10. Retail markup (line 6 ÷ line 5)	40.1	42.2	42.3
11. Combined markup (lines 4 + 6 ÷ line 1)	57.6	59.5	59.7

[a] For sources and breakdowns of data and methods of estimation, see Tables 24 and 25 and Appendix B.

are derived from them by applying relevant markdowns. No use is made of commodity output, nor can the data in Table 23 readily be placed upon a commodity basis (e.g. in order to segregate consumables).

Table 23 illustrates the inflation of dollar values consequent upon World War II. But changes in the position of the wholesaler and in the cost of distribution since 1929 have been slight.[22]

Accuracy of the Results

Before leaving the summary findings of the margin study, offered in Tables 20 and 23, it seems appropriate to note the leading heads for a discussion of the accuracy—or inaccuracy—of the results, especially for early years. To appraise the figures carefully requires perusal of Chapter 6 where the margin data are discussed; and of Appendix B which describes the projections back to 1869 of the reclassification of commodities and their allocation by channel. This chapter will merely conclude with a brief summary of what appear to the author to be the weak and strong points of the estimates.

The Problem of Absolute Size. The most alarming feature is perhaps the discrepancy shown between the estimates of dollar volume for 1929 in Tables 20 and 23. For instance, retail sales in 1929 are $54.7 billion when obtained by the commodity output method (Table 20) but only $46.4 billion by the volume of sales method (Table 23). These estimates use the same margin data and the same distributions for the relative importance of wholesaling. They differ only because one works forward from the (Shaw) commodity data and the other backward from the retail census totals.

The reconciliation of totals obtained by the two methods in 1929 and other years never has been easy. It is discussed at length by Kuznets,[23] and it is discussed again in Appendix B of this book. We may believe that the "true" magnitudes lie between the two estimates. If so, our figures for years prior to 1929 certainly overstate absolute magnitudes; it seems equally probable that our estimates for 1939 and 1948 understate them. Fortunately the error in our figures for distribution cost as a markup or percentage of sales need not be so great: if the dollar totals are uniformly overstated (or understated) the percentages will not be distorted. Despite the large differences in dollar totals, the combined markup is nearly the same by

[22] Whether or not the decline in wholesaling has been arrested is uncertain, for the Bureau of the Census has not collected information about the distribution of manufacturers' sales since 1939, so that many of the ratios for apportioning input among channels in 1948 are necessarily the same as in 1939.

[23] *Op.cit.*, Part III, pp. 171–176.

the two methods. The two estimates for 1929 are 58.8 per cent (Table 20) and 57.6 per cent (Table 23).[24]

The Understatement of Trends. In projecting back retail and wholesale margins, distributions of commodity sales, and the commodity-store cross classification, we naturally found numerous dark corners and conflicting clues. Our bias throughout was conservative. That is to say, unless we had evidence that things were different in 1899, say, or in 1869, we used the 1929 ratios. Where we lacked evidence of a trend for some particular cell of the table (e.g. in the importance of wholesaling or in the size of a margin), we assumed there was no trend. This conservative approach means that where we report trends, their magnitude is probably understated. For instance, the upward movement in the distribution cost percentages probably was more rapid than appears in Table 20.

Summary. Our estimates in dollars are less trustworthy than those in percentage form. Figures for later are better than for earlier years.

[24] Cf. the corresponding differences between figures reported for 1929 in Tables 17 and 19, in Chapter 4.

[12]

Excerpt from Glenn Porter and Harold C. Livesay, *Merchants and Manufacturers*, 1–12.

CHAPTER I

Framework and Overview

During the nineteenth century, the American economy witnessed a process of fundamental change in the marketing of manufactured products. That process mirrored many vital elements in the transformation of the nation's economy from its mercantile, agrarian orientation in the period following the Revolution to its present status as the leading industrial economy in the twentieth century. Changes in distribution played at least as important a role in the story of our economic past as did changes in production, though the attention of historians has primarily been directed at developments in the latter area. This book attempts to redress part of the historical imbalance reflected in the many shelves groaning with the weight of volumes dealing with the means by which Americans have produced manufactured goods.

We have not tried to present a comprehensive history of the marketing of all commodities. The distribution of non-manufactured products, especially unprocessed agricultural products, has already been scrutinized by numerous historians, and many admirable studies have been completed.[1] Consequently we have excluded from our study the marketing of farm and mine products, except in some cases where such goods served as raw materials for manufacturers. Furthermore, although our research has involved an examination of the distribution networks employed in a multitude of nineteenth-century manufacturing industries, what appears here is a study of firms and industries that best illustrate prevailing distribution methods and best explain the causes and directions of change in the broad structural patterns of marketing.

By "distribution system" we mean the channels through which the manufacturer marketed his goods. Some consideration is also given to the means by which the manufacturer obtained his raw materials, since this also involved the

[1] A good recent example of such work is Harold D. Woodman's analysis of the marketing of raw cotton, *King Cotton and His Retainers*.

distribution of goods—some produced by manufacturers—but the primary focus is on marketing. We have made no attempt to trace the complete flow of the product through the entire marketing system to its ultimate consumer. Our vantage point is that of the manufacturer; once he had disposed of his goods, he was normally no longer concerned with their subsequent fate. As a consequence of this viewpoint, the book deals almost exclusively with wholesaling, for, insofar as the nineteenth-century producer marketed his goods to independent middlemen, he did so almost entirely to wholesalers, not retailers.

The marketing experience of manufacturing firms clearly indicates that the most important determinants of the marketing system employed by a firm were the nature of the product it manufactured and the nature of the market served by the enterprise. At the close of the eighteenth century, manufacturers shared broadly similar markets. In addition, almost all manufactured products of the time were "generic" goods, regarded by middlemen and by the market as susceptible to similar merchandising techniques.[2] As a result, a uniform distribution system prevailed throughout the entire economy. During the nineteenth century, however, shifts in the makeup of markets and of products in many industries led to fundamental changes in the way goods were distributed. This book describes and analyzes the changes and the reasons behind them, and it delineates and explains the survival of the older marketing order in those segments of the manufacturing sector which remained largely immune to change.[3]

Determinants of the Structure of Distribution

The analytical framework of this study holds that the structure of distribution in America at the beginning of the nineteenth century was in a state of equilibrium. All products, manufactured and otherwise, were distributed through a network of sedentary merchants, who were the dominant element in the economy. Moreover, this pattern was essentially the same as it had been for many centuries throughout the Western world. Although wars, conquests, political upheavals, and religious conflicts had repeatedly upset the social equilibrium, the nature of the market, the methods of production, and the means of transportation and communication had remained relatively static. Consequently the institutions of marketing had exhibited inertial tendencies. In the absence of forces necessitating change, little change had occurred.

[2] "Generic" goods are relatively simple, unspecific, general, or undifferentiated products. They are all marketed in similar ways through standard marketing channels, which handle a wide range of such goods. They create no special problems in the apparatus used to market them and they carry with them no particular merchandising difficulties. Almost all goods were generic at the beginning of the nineteenth century, but, as time passed, more and more products became more specific, more technologically complex, and more highly differentiated.

[3] The manufacturing sector of the economy includes firms which produced either finished or semifinished goods; it does not include firms engaged primarily in mining, transportation, agriculture, or finance.

As the nineteenth century progressed, however, several basic factors upset the equilibrium and brought widespread changes in the marketing patterns for many manufactured goods. Producers moved to replace merchants in the wholesale distribution of manufactured goods whenever one of two conditions evolved within an industry. First, they did so whenever it became possible for them to market their own products at a lower unit cost than could the mercantile network. Second, they did so whenever it became necessary as a result of shortcomings in the ability or willingness of independent wholesalers to merchandise goods effectively. If neither of these two conditions emerged over time, the producers in a particular industry tended to rely on the independent middlemen who had acted as the channels of distribution from the earliest colonial times.

Neither of the two causal conditions for structural change was widely operative in the American economy until the closing decades of the nineteenth century. Therefore the specialized wholesalers who evolved in the early national period constituted the dominant marketing mechanism for manufactured products until late in the century. It was not generally economically feasible for manufacturers to create and maintain a company wholesale force, because of the diffuse, unconcentrated nature of markets. The manufacturer of the early nineteenth century was a man of very limited horizons; he knew little of the markets outside his immediate area. He relied on his wholesaler to keep abreast of the changing needs of the many small consuming units to which his goods were transferred. Furthermore, the uncertain transportation and slow communications of the times inhibited efforts to establish direct contacts between a producer and his distant customers. By simply selling his goods to an urban wholesaler, the manufacturer avoided all the difficulties and expenses of marketing them to a diffuse, diverse mass of anonymous customers, the problems of arranging transportation for many small lots, and the uncertainties of collecting accounts from the scattered customers. The strength of this advantage lay at the heart of the merchants' long commercial reign. Only when the traditional, diffuse markets changed did the ability to handle his own wholesaling become a genuine possibility for the manufacturer.

The second condition which led manufacturers to bypass merchants, the existence of marketing problems which merchants could not or would not resolve, also did not emerge widely until the latter part of the century. Virtually all goods required neither special handling nor direct contact between producer and customer. The generic nature of products made the utilization of middlemen quite logical. The antebellum industries that constituted exceptions to this generalization were the very industries in which manufacturers were led to take the initiative in distribution.

In the three decades after 1870, changes in the nature of markets and of products brought about one or the other of the two necessary conditions for modifications in the structure of marketing. The first condition—the ability of

manufacturers to wholesale more cheaply than merchants—arose in two ways. In many producers' goods industries the rise of the large corporation and the coming of oligopoly brought concentrated markets in which manufacturers sold to a relatively small number of customers who were no longer anonymous and whose orders were much larger than those of firms earlier in the century. In some consumers' goods industries the growth of urban markets produced concentrated markets wherein a firm could enjoy a sufficiently high sales volume in a city to warrant the creation of a permanent sales force there. In both cases the older, diffuse market of many small, scattered consuming units was replaced by a much denser market.

The second condition—the merchandising inadequacy of independent wholesalers—emerged in industries producing new goods that either were technologically complex, expensive items requiring close and often extended contact between manufacturer and consumer or required elaborate, innovative marketing apparatus. Technological advances in marketing facilities made expansion into the national market possible for many firms hitherto restricted to small, local sales. When these producers found existing wholesale channels unwilling or unable to avail themselves of new technology, they had to assume their own wholesaling. The appearance in the latter part of the century of many new products of considerable technological complexity also presented problems the old wholesalers could not solve—problems such as the need for demonstrations, extensive repair facilities, and the necessity for close consultation which resulted from the special needs of the customer. Such changes in the nature of products created marketing challenges undreamed of in the older era of generic, less complicated, less costly manufactured products. The established mercantile system often proved unable to make the needed adjustments and so watched the emergence of new industries in which the independent wholesaler was either entirely absent or considerably less important than he was in more traditional industries.

In those portions of the manufacturing sector where it neither became less costly for manufacturers to replace wholesalers nor became necessary for them to do so because of wholesalers' merchandising inadequacies, the old order endured. Throughout the industries where markets remained diffuse and products remained undifferentiated and inexpensive, the old structure of distribution survived. These industries generally were the least concentrated ones in the emerging twentieth-century economy and were populated by firms that were not examples of the large, modern corporation. They continued to rely on the independent middleman because neither the nature of markets nor that of products changed significantly in the nineteenth century.

This analytical construct, which rests on the assumption that economic institutions are inherently resistant to change so long as they can continue to function effectively, underlies our division of the history of nineteenth-century marketing into three distinct periods. The first was the age of the all-purpose

merchant, which included the colonial experience and the early national period to 1815. Next came the age of the specialized wholesaler, which continued into the 1870s. Finally came the era of the manufacturer.

Distribution in the American Economy: The Age of the All-Purpose Merchant

During the first two centuries after the initial English settlements on the North American continent, urban merchants dominated the commerce of this extension of Europe, just as they had dominated European commerce since their supplanting of the petty capitalism of traveling merchants and peddlers in the late Middle Ages.[4] They were all-purpose, non-specialized merchants who dealt in a wide variety of goods ranging from lace to iron bars.[5] Usually they owned their own ships and engaged in commerce in coastwise and foreign trade, and often they acted as agents for British mercantile houses. They bought and sold items at wholesale and retail, and they acted as importers and exporters. They financed and insured the transport of goods with their own

[4] The best source on this topic is still the work of N. S. B. Gras; see especially his *Business and Capitalism.*

[5] Throughout this study a number of terms will be used to describe various marketing agents. The literature (both primary and secondary) of American economic history in the nineteenth century employs an array of terms for commercial middlemen—merchant, agent, factor, jobber, commission merchant, manufacturer's agent, wholesaler, forwarding merchant, and so forth. In the hope of making the distinctions between the kinds of wholesalers clearer, the terms used in this study are defined as follows:

(a) *Generalized merchant*—the all-purpose, non-specialized merchant of the colonial and early national periods. Synonyms include merchant capitalist, colonial merchant, and sedentary merchant.

(b) *Broker* or *factor*—a mercantile creature who is entirely a middleman. He never sells on his own account, but acts for others in his task of bringing buyer and seller together. He is more specialized than the colonial merchant, for he deals in a single line of goods, such as groceries, dry goods, drugs, iron, hardware, etc. Like the commission merchant described below, he takes a commission on his sales.

(c) *Commission merchant*—differs from the broker or factor in that he sells partly for his own account as well as for others. He, too, is a specialized man of business, and this differentiates him from the generalized or colonial merchant.

(d) *Jobber*—a wholesaler who buys and sells entirely on his own account, distributing his purchases either to other jobbers or to retailers.

(e) *Manufacturer's agent*—acts solely as a middleman, never selling on his own account. He differs from the broker or factor only in that he is even more highly specialized; he usually acts for a relatively small number of larger producers and sells to a smaller circle of customers than does the broker. If a particular firm authorizes him to be its sole representative in a specified geographic area, he is an exclusive manufacturer's agent; otherwise he is a non-exclusive manufacturer's agent. An exclusive manufacturer's agent acts for more than one producer, however; he is exclusive in the sense that he is a particular manufacturer's only sales agent in the area.

Other terms, including wholesaler, merchant, middleman, commercial agent, and mercantile agent, are general terms that cover any and all of the above types. The general sobriquets are used in the faint hope of relieving, slightly, the tedium of repeating the specific appelations.

capital or acted as factors for others. Often they loaned funds to capital-poor artisans and farmers who produced the goods in which the merchants traded.[6]

These great urban merchants were the key men in the early American economy. From their counting houses in the centers of urban business districts they coordinated the flow of goods through the arteries of commerce. They allocated the economy's capital, and they were competent in virtually every aspect of business. Merchants, farmers, and artisans in the back country looked to the urban merchant capitalists for leadership; they were the wealthiest, best-informed, and most powerful segment of early American society.

Producers in the rudimentary manufacturing sector relied entirely on the seaboard merchants for the distribution of all goods not sold in the manufacturing establishment's immediate surroundings. These goods involved no particular difficulties in marketing. The producer simply shipped his commodities to a nearby urban merchant and relied on him to dispose of them in the appropriate markets by means of the special knowledge and abilities that made him the high priest in charge of the mystic rites of trade. The goods then flowed to the diffuse, highly anonymous (as far as the manufacturer was concerned) markets of which contemporary commerce was composed.

The political upheavals that followed the end of the French and Indian War and led to the Revolutionary War and the subsequent initial years of the United States had virtually no effect on the position, role, or methods of the all-purpose merchants, who controlled the economic life of the colonial and early national era. Colonial historians, red in tooth and claw over the social and political meaning of the events of the last half of the eighteenth century, have paid much less attention to the economic role of the great sedentary merchants. To be sure, the Revolution, Confederation, and early national experiences created some problems and called forth adjustments in the short-run operations of merchants. The depressed conditions and the closing of much trade with Great Britain and her empire, for example, led American merchants to seek new commercial outlets such as the romantic, tantalizing Far East. Such temporary dislocations, however, did not alter the basic predominance of merchants in the economy, and they did not effect significant changes in the relations between merchants and manufacturers.

In the years following the desultory second conflict with Britain and the close of the Napoleonic Wars, however, the merchant capitalist witnessed a genuine change in his operations. The centuries-old tradition of omnicompe-

[6] Leading studies of the sedentary merchant include Bernard Bailyn, *The New England Merchants in the Seventeenth Century*; Stuart Bruchey, *Robert Oliver, Merchant of Baltimore, 1783–1819*; William T. Baxter, *The House of Hancock*; Byron Fairchild, *Messrs. William Pepperell*; Kenneth W. Porter, *The Jacksons and the Lees*; and James B. Hedges, *The Browns of Providence Plantations*. Also of interest is Bernard Bailyn, ed., *The Apologia of Robert Keayne*.

tence—of handling the entire range of economic activities, including importing and exporting, wholesaling and retailing, insuring and shipping virtually every item in which men traded—was eroded and eventually destroyed. The all-purpose merchant gave way to a new generation of businessmen who came to control the distribution of the products of the young nation.

The Distribution System, 1815–1870: The Age of the Wholesaler

The new distribution network, like the old one, was in the hands of merchants. These businessmen, however, were largely jobbers or commission merchants rather than generalized merchants. The expansion of the economy in the first half of the nineteenth century led to a high-volume trade which compelled or allowed merchants to abandon their previous all-purpose orientation and to specialize. They became importers or exporters, wholesalers or retailers, and generally concentrated on a single line of goods such as hardware or dry goods.

As the frontier was pushed westward toward the Mississippi, natural increase and European immigration swelled the population. When the first federal census was taken in 1790, less than four million persons lived in the United States. By 1820 the population had more than doubled, and by 1860 it had grown almost eightfold from the original figure. This burgeoning increase called forth an expanding volume of trade.[7]

Another impetus of great importance was the British Industrial Revolution. That phenomenon created a large new market for American cotton, and the resulting changes in the American economy were profound. After the invention of new machines such as the spinning jenny, the water frame, and the mule, the explosive development of the British textile industry led to a corresponding rise in the export market for unmanufactured cotton. In the 1790s, for example, American exports of cotton averaged less than five million pounds annually. By the 1830s the cotton export level had risen to an annual average of more than 385 million pounds, and by the 1850s to more than a billion pounds.[8]

A whole new set of mercantile institutions was built to accommodate this expanded trade, including such innovations as the Black Ball Line's regularly scheduled packet service between New York and Liverpool and new forms of marine insurance and commercial banking. In order to facilitate the flow of goods and information to and from the interior of the United States, the seaboard merchants lent their support to the program of improved transportation through canals, turnpikes, and railroads. They also used some of their surplus

[7] U.S. Bureau of the Census, *Historical Statistics of the United States*, p. 8.
[8] *Ibid.*, p. 547.

capital generated from the new, higher-volume trade to invest in the nation's manufacturing sector.[9]

The specialized wholesalers, as this study makes clear, acted as the catalysts for economic growth by providing long-term and working capital to manufacturers interested in expansion. In many instances they took the lead in initiating manufacturing enterprises. Of even greater importance in an era of scarce capital, they extended credit to many businesses that could get no assistance from formal financial intermediaries such as commercial banks. The contributions of these specialized merchants to the process of economic growth in this country were absolutely essential, although heretofore their role has been little noted.

The ramifications of the nation's economic growth in the wake of the British Industrial Revolution were many and varied, but the important one for the purpose of this study was that the increased volume of trade led to specialization by merchants. The distribution of manufactured goods passed into the hands of a new breed of middlemen. Although their horizons were not so broad as those of the colonial merchants, the new middlemen were the most important men in the economy. They coordinated the flow of goods, allocated capital to farmers and manufacturers through the extension of credit, backed improvements in transportation, and served as primary economic integrators, at least through the Civil War years.[10]

The operations of specialized wholesalers are examined in the first half of this study. The distribution system in such lines as dry goods and drugs serves as an excellent example of the pattern that obtained throughout the consumers' goods industries. The marketing of textiles and the activities of a typical antebellum drug jobber illustrate the distribution network for such items as groceries, hardware, liquor, jewelry, notions, drugs, dry goods, and other staples of the early nineteenth-century consumer. In order to make clear the distribution system for producers' goods, the experience of the iron industry is explored. The chapters that delineate the marketing structure in these industries present a comprehensive portrait and analysis of the specialized wholesaler in the five decades after the War of 1812. They explain how he functioned, why

[9] The most impressive work analyzing the over-all impact of the cotton export trade on the American economy before the Civil War is Douglass C. North's *The Economic Growth of the United States, 1790–1860*. The best account of the changing patterns of trade and the new mercantile arrangements in the early decades of the nineteenth century is Robert G. Albion's *The Rise of New York Port*.

[10] An excellent brief treatment of the rise of the wholesaler in the first half of the nineteenth century can be found in Alfred D. Chandler, Jr., "The Role of Business in the United States," pp. 24–27; see also George R. Taylor, *The Transportation Revolution, 1815–1860*, chap. 1. Henrietta Larson observed in her *Guide to Business History*, p. 189, that "of the specialized wholesale merchants and commission dealers who grew to such importance in the nineteenth century very little is known." The work of the last twenty years has not done much to fill this substantial gap in our knowledge of our economic past.

he played a vital role in economic growth, and why the existing diffuse markets and generic products made him the logical distributor of the nation's manufactured goods.

The merchant gained much when he evolved from the all-purpose, omnicompetent businessman of colonial times into the much more highly specialized wholesaler of the first half of the nineteenth century. He knew his specialty much more thoroughly than the colonial merchant had known any particular service or product among the many in which he dealt. The increasing degree of division of labor in the mercantile realm after 1815 probably meant that commercial life was becoming more efficient, as each merchant grew to have a heightened command of all aspects of his specific line of business. By becoming more specialized, the merchant underwent a mutation that made him a better adapted economic organism, one capable of flourishing in the changed economic environment after 1815.

However, in making the transition from an all-purpose to a specialized man of business, the merchant also lost much. Because he handled all kinds of transactions pertaining to the distribution, finance, and transportation of a wide range of goods, the colonial merchant was insulated against unfavorable changes in the environment for any particular service or product. He operated on local, regional, national, and even international levels; his horizon was the wide world of commerce. Although he may not have been so efficient an economic component as his specialized successor, his omnicompetence assured him of a leading place somewhere in the economic system, despite virtually any alteration in the economic environment. The particularized merchant, for all his seeming invulnerability in the age of the wholesaler, was potentially far less secure in his dominance than had been his all-purpose predecessor. As long as the environment remained more or less the same, he had no problems; but, should the environment change significantly, he was potentially vulnerable as a result of his specialized state.

A detailed look at the one pre–Civil War industry in which conditions did shift markedly (with disastrous consequences for wholesalers)—the railroad supply industry—illustrates the possible dangerous results of specialization. In its initial phases, distribution in that business was similar to other producers' goods such as iron. As products grew more highly differentiated and technologically complex, and as the market grew more concentrated and less diffuse, producers and customers came to know one another, and the middlemen were swept aside; manufacturers and the railroads established direct contacts. In this respect, as in so many others, the experience of the railroads foreshadowed developments in many other industries.[11] Changes in the nature of markets and of products in the last part of the century brought about precisely the kind

[11] The theme of the railroads as prototypes for later corporations is developed in Alfred D. Chandler, Jr., ed., *The Railroads*.

of environmental changes to which the particularized wholesaler had been potentially vulnerable.

The Decline of the Merchant and the Rise of the Manufacturer

In the last half of the nineteenth century, the ancient and honorable dominion of the independent merchant over commerce came to a close. With the development of the modern manufacturing corporation in the last decades of the century, the role of independent middlemen in the distribution of manufactured goods greatly diminished. The rise of the factory and of mass production in the 1850s had tremendously increased the potential production rate of a single firm; the problem that remained for the manufacturers was how to solve the difficulties of mass distribution.

As producers in industry after industry learned to their grief in the decades following the Civil War, efficient production was not enough. Increased production seemed to bring only falling prices, as supply outran demand. The wholesale price index for all commodities in 1865 was 185; it declined fairly steadily thereafter to around eighty at the beginning of the 1890s.[12] Producers struggled mightily with the problem of adjusting output to meet the needs of the market, trying pools, gentlemen's agreements, trusts, and holding companies. During this search for economic order, some manufacturers began to create their own distribution networks and thus to eliminate or greatly reduce the role of the independent middlemen.

While not directly related to their role in the distribution process, one important reason for the decline of merchants was the atrophy of the manufacturers' financial dependence on them. During the 1860s, many manufacturers found that they were able to put their businesses on a cash basis as a result of the wartime boom and the infusion of greenbacks into the economy. This reduced their reliance on credit extended by wholesalers acting as their suppliers and distributors. Of even greater importance was the growing ability of producers to finance their operations out of retained earnings and the concomitant growth of financial intermediaries able and willing to lend funds to promising manufacturing enterprises. These developments hastened the decline of wholesalers in the economy, but their fate in the closing decades of the century was sealed by the increasing tendency of manufacturers in many industries to create their own distribution networks.

Changes in distribution came whenever a large firm faced either a concentrated market or serious problems in the marketing of its products. The independent middleman had always served to bring many buyers and sellers together, to connect and coordinate the diffuse markets of the older economy.

[12] The index was compiled by George F. Warren and Frank A. Pearson. See Bureau of the Census, *Historical Statistics*, p. 115.

Late in the nineteenth century, however, the structure of markets changed in many industries. The makers of producers' goods such as iron and steel and non-ferrous metals, like the makers of railroad supplies in antebellum days, found that the rise of the large firm and the coming of oligopoly had reduced the numbers and increased the size of buyers and sellers.[13] This resulted in a very different and much more concentrated market in which the network of independent merchants was no longer relevant. Manufacturers could now handle their own wholesaling more efficiently than could the middlemen, and they assumed the functions of the merchants by building their own marketing organizations. In many consumers' goods industries, manufacturers also faced a denser market because of the growth of America's cities, with their concentration of population and hence of customers. As more and more industries grew oligopolistic, manufacturers utilized the significantly improved transportation and communications systems to take over the wholesaling of their own goods in the expanding urban areas. In producers' and consumers' goods industries, manufacturers supplanted the mercantile agents primarily because of changed market conditions, not because of any serious inadequacies in the old distribution network's ability to market the goods effectively. Manufacturers in other industries, however, did encounter distribution problems that the middlemen could not solve.

The latter group of firms produced many of the new goods that appeared in the post–Civil War United States, some of which were quite technologically advanced. Processors of perishable items, such as ice, dressed beef, bananas, beer, and others, employed improved refrigeration techniques to forge marketing organizations that would tap the potential urban markets. Because the old mercantile agents were not in a position to distribute the perishables, producers built costly storage, transport, and marketing facilities, which brought economies of scale in distribution. Makers of complex products, such as industrial machinery, early electrical apparatus, harvesters, office machines, and other commodities, found that the necessity for close and continuing contact between manufacturer and consumer made the commission agents and brokers an unsuitable distribution channel. Accordingly they created their own marketing organizations to provide such services as technical consultation, instruction in the operation of products, replacement parts, and facilities for repairs. In the realm of perishable goods and those requiring intimate, extended contact between producer and customer, the inability of the established distribution

[13] Economists refer to a situation in which a few large firms constitute the market for particular production factors as "oligopsony." This term is singularly unwieldy and not entirely appropriate here, for it implies a set of controls and influences exercised by consuming firms over producers of inputs. We are concerned here with the effects of an increasingly dense market upon the distribution methods of producers, not with any theoretical purchasing advantages accruing to oligopolists. Therefore we prefer to designate the advent of a more concentrated market as the coming of oligopoly, not oligopsony.

[13]

Excerpt from Glenn Porter and Harold C. Livesay, *Merchants and Manufacturers*, 228–31.

CHAPTER XIV

The Contours of Change

By the early years of the twentieth century, the new order in American marketing had emerged in many industries. Although it is impossible to say precisely when most manufactured goods in the U.S. economy came to be distributed by the producers themselves, it seems clear that the marketing revolution occurred between the mid-1890s and World War I.

When the Bureau of the Census conducted the first systematic investigation of the distribution of manufactured products in 1929, the results clearly revealed the dimensions of the change that had taken place in marketing since the early nineteenth century.[1] Independent wholesalers, for so much of our economic past the dominant marketers of manufactured goods, handled less than one-third of the flow of such goods from American factories in 1930.[2] Most manufactured products were marketed in various ways by the producing firms themselves. Almost one-third of the goods were sold directly to industrial consumers, and the rest went to the manufacturers' own wholesale and retail branches, to independent retailers directly (without the use of wholesalers), or directly to home consumers.[3]

The shift toward this new marketing system was quite clearly under way by the turn of the century. In industry after industry, firms developed their own marketing divisions. Just a partial listing of the large companies that by

[1] U.S. Bureau of the Census, *Fifteenth Census of the United States, 1930.*

[2] The actual figure was 29.6 per cent of the selling value FOB factory (that is, excluding transport and handling costs from factory to customer) of manufactured goods (*ibid.*, 2: 5–7). The sampling period (the early part of the Great Depression) obviously was not a "typical" one, but the over-all pattern of manufacturing dominance is clear.

[3] The breakdown was: 31.6 per cent to industrial consumers; 18.6 per cent directly to retailers; 16.1 per cent to the manufacturers' wholesaling branches; 2.5 per cent to home consumers; 1.9 per cent to the manufacturers' retailing branches; and 29.6 per cent to wholesalers (*ibid.*).

channels to provide the facilities and services needed for the new products led manufacturers to bypass the independent middleman and to assume the wholesaling function.

Although erosion was common to the traditional distribution network of most American manufacturing, in some areas the middleman continued to act as the primary wholesale agent. In those industries in which the rise of the large firm and the coming of oligopoly were rare, and in which the structure of markets and the nature of products remained much the same as they had been throughout the nineteenth century, the independent middleman endured. Throughout the complex of industries in which a variety of simple, standard items was sold through many thousands of retailers—in the grocery, drug, hardware, jewelry, liquor, furniture, and dry goods businesses—the jobber continued to assemble and disperse goods through these diffuse markets. The highly unconcentrated structure of such markets made the jobber vital even in those industries dominated by a large firm such as the American Tobacco Company. In the areas in which the independent middleman survived as wholesaler, however, his old role as salesman atrophied because of the coming of national advertising and brand names. Advertising reduced the wholesaler's job to the rather mechanical satisfaction of consumer wants created by the manufacturer's direct appeal to the customer.

By the beginning of the twentieth century, the outlines of the new economic order had emerged. The concentration movement, the changing structure of markets, and the appearance of technologically advanced products that presented serious distribution and marketing problems all spelled the end of the merchant's dominance and the beginning of the manufacturer's preeminence. Only in those sectors of the manufacturing economy which retained many of the characteristics of the older, agrarian-based economy did the independent middleman retain his primary role as wholesaler. The long reign of the merchant had finally come to a close. In many industries the manufacturer of goods had also become their distributor. A new economy dominated by the modern, integrated manufacturing enterprise had arisen.

The changes in the distribution patterns of American manufacturing from 1815 to the opening years of this century reflected the broader pattern of the economy's shifting locus of power. The modern corporation emerged as the dominant institution in our economy and perhaps in our society. The twin engines of change in marketing—the concentration of production and population on the one hand, and the imperatives of advancing technology on the other—also proved to be the forces which shaped the broad outlines of change in all of American civilization. They have determined much of the context of economic, political, and social conflict in modern America.

1910 had built their own systems to distribute their goods in the national market includes: food processing enterprises such as Armour, Swift, Morris, Wilson, Cudahy, Nabisco, United Fruit, Corn Products, American Ice, and National Distillers; metals firms such as U.S. Steel, Bethlehem Steel, Crucible Steel, and National Enameling and Stamping; petroleum products companies such as Standard Oil, Pure Oil, Union Oil of California, Sun Oil, General Asphalt, Texaco, and Gulf; makers of crude chemicals such as du Pont and International Salt; automobile firms such as General Motors, Ford, and Packard; as well as producers of a variety of technologically complex goods—firms such as General Electric, Westinghouse, Pittsburgh Plate Glass, International Harvester, Singer, Eastman Kodak, Worthington Pump and Machine, U.S. Rubber, and Allis-Chalmers.[4]

During the first half of this century, the process of integration forward into marketing continued to spread. By mid-century the vast majority of large corporations were handling some of their own marketing. Of a sample of 153 large manufacturing firms operating in 1948, 79 per cent engaged in wholesaling operations, and 87 per cent were involved in wholesaling and/or retailing activities.[5] Sometimes this occurred in the form of a sales department with offices across the nation, sometimes through company wholesaling and/or retailing branches that kept inventories, sometimes via the creation of a subsidiary marketing corporation, or through some combination of these methods. Whatever the particular form they assumed, the merchandising activities of manufacturing concerns represented the overturning of an economic order whose lineage in the Western world was centuries old.

In the colonial and early national period, the pattern had been an extension of the European configuration. Virtually all manufactured goods that entered markets other than strictly local ones passed through the hands of sedentary merchants. With the exception of a few industries, this pattern continued without visible prospects of change until the 1870s. The mercantile community experienced internal alterations as a result of expanding trade and specialization after 1815, but these changes did not affect the fundamental dominance of the mercantile community as the agent of distribution or as coordinator of national and regional flows. Merchants acted as merchandisers and as financiers of economic growth. Their financial role began to atrophy after 1860, and they were forced to rely on their specialized marketing activities.

[4] This incomplete list is drawn from evidence presented earlier in this volume, as well as from our study of large twentieth-century American firms based on company annual reports, Moody's and Poor's manuals, and a variety of secondary sources. Some of the results of that study appeared in Harold C. Livesay and Patrick G. Porter, "Vertical Integration in American Manufacturing, 1899–1948."

[5] Based on data collected for the Livesay and Porter article, "Vertical Integration in American Manufacturing." An outstanding statistical analysis of the distributive sector's place in the over-all twentieth-century economy is provided in Harold Barger's *Distribution Place in the American Economy since 1869*.

These activities had always rested on the twin pillars of the generic nature of manufactured goods and the diffuse markets in which they were sold. Only when those conditions changed could a new marketing order emerge. The fundamental changes came in the wake of improvements in transportation and communications. These developments made possible the expansion of manufacturing firms into large regional, national, and even international markets. In adapting to these changes, merchants sacrificed versatility for specialization. Once the expansion had occurred, independent wholesalers became vulnerable to changes in the nature of products and of markets.

As the last decades of the nineteenth century unfolded, products and markets changed. Advancing technology brought to many industries new merchandising requirements for their goods. The old economy of simple, uncomplicated products was joined by the many new scientifically and technologically oriented industries that were to become the backbone of the modern American economic system. These new industries found that the traditional marketing arrangements did not function very well for them; consequently they built a new network of manufacturer-dominated merchandising channels. Similarly, the increasing concentration of markets in the wake of the rise of the modern corporation, the emergence of oligopoly, and the concentration of population in urban areas altered the traditional nature of the market for many industries. Many manufacturing firms then found it more efficient to deal directly with their customers and to dispense with much of the old web of commercial intermediaries. These two basic developments, coupled in some industries with backward integration and intracompany sales, spelled the decline of the independent wholesaler in the twentieth-century economy.

Although the independent wholesaler obviously did not disappear from the national scene, he became largely restricted to those broad sectors considered in Chapter XIII. Only where goods remained generic and markets diffuse—in those sectors wherein numerous retailers sold a wide variety of relatively simple goods produced by many manufacturers—did the wholesaler retain his primary distributive role.

The independent wholesalers were unable to adjust to the different economic order of the late nineteenth century primarily because their traditional function was no longer relevant in many industries. They were specialized men of business whose time had simply passed; they cannot fairly be faulted for inadequate will or poor entrepreneurship. Their methods, their organization, their whole orientation toward the economy made them ill equipped to function in the emerging environment of advanced technology and giant corporations. They had served long and well, but their expertise, resources, and training were not adaptable to large portions of the corporate world of the twentieth century.

We have explored in this volume the structure of the marketing of manu-

factured goods in the nineteenth century, tracing the process of change and suggesting reasons for that change. The evolution of marketing techniques is a part of the over-all story of the fundamental alterations in American society brought about by the metamorphosis from the older, agrarian-oriented, merchant-dominated economy to the modern, industrialized, concentrated economy. Observers have long noted that ours is above all a business civilization; towering office buildings dominate our cities and reflect the values of our civilization as surely as the magnificent cathedrals of the twelfth and thirteenth centuries reflected those of medieval Europe. For more than two centuries after the initial English settlements in what was to become the United States, our business civilization lay in the hands of independent merchants. Their power derived from their strategic position at all the crossroads of commerce, at the nexus between producer and consumer. When they surrendered their place of leadership, first to the men who built the great manufacturing firms and then to their corporate heirs, they did so in large part as a result of having lost that strategic position. The modern manufacturing corporation assumed the marketing role, not because of a failure of will or vision on the part of the merchants, but because of the alterations in the nature of products and of markets. Once these fundamental dimensions of the economy had changed, there followed a lasting revolution in the relationships between merchants and manufacturers.

[14]

Excerpt from Louis P. Bucklin, *Competition and Evolution in the Distributive Trades*, 203–19.

6

structural change in wholesaling since 1929

The principal forces exerting pressures upon wholesaling in the half century prior to 1929 continued unabated after this date. Importing and exporting produced less than 8 percent of independent-wholesaler sales volume at this time and was to decline further. Manufacturers continued to expand the scale of their factories, broaden their product lines, and integrate forward into distribution. After a hiatus in the 1930s, chain stores resumed their growth. The potential was large for reduction in merchant-wholesaler ranks and sales.

The purpose of this chapter is to trace the impact upon the wholesale sector of these forces and to introduce others that may add to their weight or countervail. To accomplish this, following a brief discourse on the classification of wholesale institutions, we will first analyze the progress of sales in the wholesale sector, both relative to retail volume and to total producer shipments. From here we will proceed to examine various aspects of wholesale structure. Specifically, the size of wholesale establishments and the productivity of labor will first be evaluated. We shall then consider the market shares held by the various major types of wholesale organizations.

The source of data for much of this will again be the Census of

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Business. It will be recalled from Chapter 3 that the census enumerated trade institutions in terms of establishments rather than firms. This means that our unit of analysis will consist of the places of business from which wholesaling is conducted. The chief identifying characteristic of such a place is the presence of various office and bookkeeping activities for the processing of wholesale transactions. Unlike retailing, where most transactions are consummated at the establishment, wholesale transactions are much more likely to be derived from field sales-force activity. Wholesale establishments vary more widely in the number of marketing functions performed.

THE CLASSIFICATION OF WHOLESALER ESTABLISHMENTS

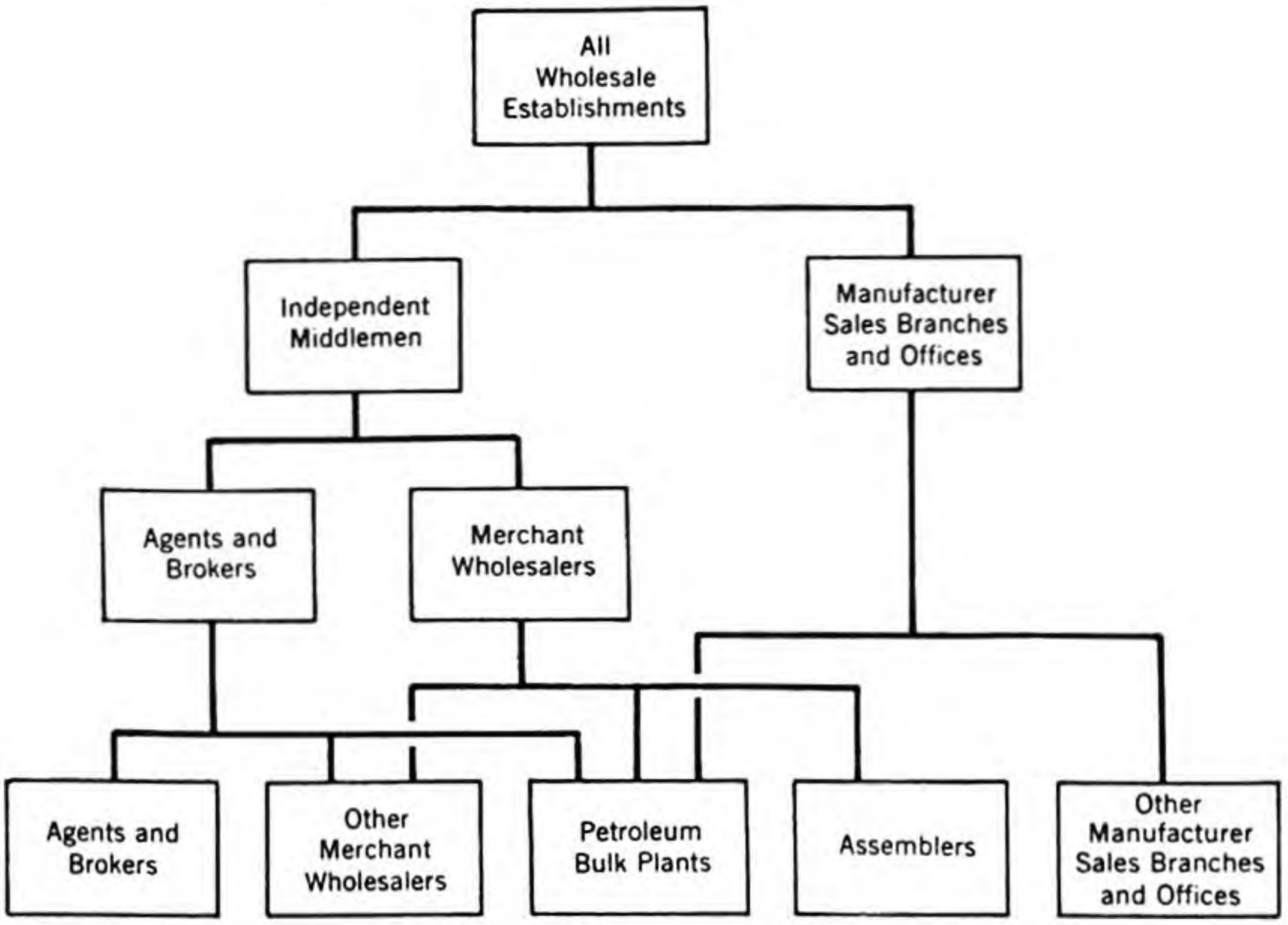
Establishments classified as wholesalers are distinguished from other places of business by their principal orientation to the contactual work necessary for the exchange of goods between business and public institutions. Two aspects of this are critical. One is the discrimination between these institutions and those that handle goods for retail sale, as we developed in Chapter 1. The second is the participation in the flow of title. The latter requirement serves to eliminate from our census data many warehousing firms whose operation is often quite similar to that of regular wholesale establishments. Examples are public warehouses and chain-store distribution depots. Though these may play the role of alternative modes of wholesaling, they do not participate in the flow of title; hence, they are not classified as wholesale establishments.

Among those establishments that qualify as wholesaler types distinctions are drawn in terms of ownership, functions performed, and products handled. The role of ownership provides a basis for dividing establishments into three categories: manufacturer sales branches and offices, agents, and merchant-wholesalers. As shown in Figure 6-1, the latter two categories may be roughly distinguished by title of independent middleman. (While some of these are actually owned by manufacturers and are anything but wholly independent, they operate in a mode similar to those that are independent.) Agents are differentiated from merchant-wholesalers in that they do not take title to goods passing through their accounts; merchant-wholesalers invariably do.

From these three sets of establishments the Bureau of the Census historically defined five basic classifications for wholesalers, termed

FIG. 6-1

CHARACTERISTICS OF THE FIVE MAJOR FORMS OF WHOLESALE ESTABLISHMENTS



types of operation. The bases for these five are diverse, being partly product distinction, function orientation, political, and pragmatic. Petroleum plants are separated because of their unique product line and the highly distinctive method of storage. Within this group, however, are to be found agents, merchants, and manufacturer branches (although these divisions are seldom explicitly stated). Assemblers may be merchants or agents engaged chiefly in the gathering of farm crops. The distinction between other wholesalers that handle farm products is based solely on the stage of distribution; assemblers are concerned with the initial stages of concentration. For classification work in the 1970s, the Bureau of Census was giving consideration to abandoning its historical classification of petroleum bulk plants and assemblers as separate types of operation comparable to manufacturer sales branch, merchant-wholesaler, and agent. Instead, these two groups would be analyzed according to their role in the flow of title and divided among the three remaining types of operation as a specialized kind of business.

The remaining three categories represent the agents, merchants,

and manufacturer sales offices and branches that handle the bulk of the goods in the market. Within these three types of operation, additional distinctions by kind of business are established, permitting a more specific analysis by product line of the relative competitive position of the three types to be obtained.

GROWTH OF THE ROLE OF THE WHOLESALE ESTABLISHMENT

Turning now to the rate of development of all wholesale establishments (those five categories on the bottom row of Figure 6-1), we measure this by the aggregate sales of these organizations. Table 6-1 shows these figures for the years 1929 through 1967. On a deflated basis—that is, adjusting for rises in the price level—wholesale sales more than tripled during this period. The rate of development of wholesaling, as measured by the deflated wholesaler-retail sales ratio, showed little change at the beginning and end of the four decades despite some substantial shifts within this period. Nationally, wholesaler sales are larger than retail sales because of the large product flow to industrial markets that does not pass through the retail trade and because some products are sold two or more times by wholesale institutions. While the latter results in some double counting, the proportion of such business did not increase between 1939 and 1963, as shown later by the statistics for secondary trade in Tables 6-6 and 6-7. The ratio declined sharply from 1929 to 1939, partly reflecting the decline, during this depressed decade, of the industrial sector where wholesaling is of considerable importance. There may also have been some reversion to shorter channels for

TABLE 6-1

WHOLESALER SALES FROM 1929 TO 1967
(In Billions of Dollars)

	1929	*1939*	*1948*	*1958*	*1967*
Wholesaler sales	65.4	53.8	180.6	285.7	459.5
Wholesaler sales (deflated)	125.5	126.0	205.5	284.6	433.1
Wholesaler-retail sales ratio (deflated)	1.44	1.34	1.43	1.43	1.55

Source: *Wholesale Trade*, Census of Business (Washington, D.C.: Government Printing Office), various years.

consumer goods, bypassing the wholesaler. After this period, the increasing prosperity of the United States brought a steady *advance* in the relative importance of wholesaling activities. The concept that wholesaling is an industry disadvantaged by economic growth is not only inconsistent with these statistics, but the very opposite hypothesis is suggested. This later improvement suggests that the mature economy offers significant opportunity for the growth of wholesaling, probably more than for retailing.

A second view of the wholesaler-retail ratio may be obtained from geographical differences among the various states of the country. Using 1963 Census of Business data, a cross-sectional analysis, of the same type developed earlier for the retail sector, was undertaken for wholesaling. From this investigation, the average wholesaler-retail sales ratio across states for that year was 1.20. The higher ratios shown in Table 6-1 result from the fact that wholesale sales are geographically concentrated; a relatively limited number of states were credited for the large proportion of sales by wholesalers. In 1954, for example, eleven states accounted for 69 percent of all sales by wholesalers.[1] The number has declined somewhat since that date, but the industry remains highly centralized.

From regression analysis of cross-section data, by states, (for a review of the data used in this regression and those to follow, see Appendix D) the relative importance of wholesaling to retailing, as measured by the wholesaler-retail sales ratio, was significantly associated with the importance of farming, urbanization, wages, and retailer size. In Equation (6.1) the independent variables are farms per capita (thousands of persons), F_c; the wholesale wage rate, P; the degree of state urbanization, U; and the average-retailer sales volume (in thousands of dollars), Rs. The equation was:

$$(6.1) \quad W/R = -.250 + \underset{(.003)}{.014F_c} + \underset{(.119)}{.533P} + \underset{(.006)}{.02U} - \underset{(.003)}{.007R}, \ (R = .72)$$

The wholesaler-retail sales ratio is positively associated with both the degree of agricultural intensity of a state and its urban orientation. Urban areas are industrialized and act as distributing points for more rural states.

The equation also shows the ratio positively influenced by the level of wholesale wages. Where wage rates are high, reflecting the level for all industry, business activity is high. In such areas we would expect wholesaling to play a larger role than where industrial and

[1] David A. Revzan, "Some Selected Trends in Wholesaling," in *Proceedings, Conference of Marketing Teachers from Far Western States*, ed. Delbert J. Duncan (Berkeley: University of California, 1958), p. 106.

governmental activity was at a low ebb. The negative association with the size of the retailer is what we would have predicted from our distance/lot-size equation of Chapter 1. Larger retailers buy in greater volume and have the skill and incentive to purchase as cheaply as possible, reaching back to the factory to avoid traditional wholesale routes when possible. Direct factory-to-retailer sales, thereby, displace wholesaler volume.

Role of Direct Sales

This role of degree of direct sales, not only from factory to retailer but from factory to industrial buyer, is a determinant of the importance of wholesaling that merits further exploration. Unfortunately, the Census of Business provides no statistics on the extent to which goods bypass the wholesale middleman. As a result, we are forced to make our own rough estimates. One of these is to be found in Table 6-2; the basis for its derivation is found in Appendix A.

From this table we see that of all shipments of goods within the country in 1939, 53 percent were directed to a wholesale middleman. By 1963, this had dropped to 49 percent, a moderate decline that provides little support for the notion that the need for wholesalers is rapidly vanishing. The division of this volume into industrial

TABLE 6-2

PRODUCER SALES, DIRECT AND TO WHOLESALERS, 1939 AND 1963
(In Billions of Dollars)

Market	*1939*		*1963*	
	Dollars	*Percentage*	*Dollars*	*Percentage*
All sales by producers	65.5	100	472.2	100
Direct to:				
Users or retailers	30.6	47	231.9	51
Wholesalers	34.9	53	240.3	49
Consumer market	27.3	100	165.1	100
Direct to:				
Retailers	7.7	28	56.5	34
Wholesalers	19.6	72	108.6	66
Industrial market	38.2	100	307.1	100
Direct to:				
Industrial users	22.9	60	175.4	57
Wholesalers	15.3	40	131.7	43

Source: Appendix A.

and consumer goods sectors provides insight as to the shift. Here we see that the minor overall deterioration in wholesaler position was wholly due to changes in consumer-goods sector, a carry-over from the developments that started in the previous century. Wholesaler volume improved in the industrial goods market, both absolutely and positively. Moreover, the industrial market grew much faster than that for consumer goods. Consequently, the overall reduction in the wholesaler role hides a real improvement in the industrial sector.

Our conclusion, then, is that the wholesaler-retail sales ratios have improved because of the faster rate of growth of the industrial market. The importance of the latter market in an economy is another measure of its state of maturity. The more advanced the region, the relatively greater we would expect industrial market sales to be—another facet of our thesis of specialization and development. Consequently, while the industrial market traditionally had relatively less use for wholesalers—because both buyer and seller have been large firms—the growth and complexity of this market have provided many of the new opportunities for wholesalers to reduce search and match assortments.

CHANGES IN ESTABLISHMENT SIZE AND PRODUCTIVITY

In our study of developments in the characteristics of the typical wholesale establishment, we shall look at three aspects. These are the number of wholesale establishments, their average size, and the productivity per employee.

The Number of Wholesale Establishments

Paralleling the increase in the number of firms in the wholesale sector, as discussed in Chapter 1, there has been a substantial rise in the number of establishments. Between 1929 and 1967 the number of such places of business almost doubled (see Table 6-3). In comparison with the number of retail establishments, wholesaling has literally boomed. Some of this increase has come from the gradual decentralization of many wholesale activities, the process begun in the previous century. Still continuing, we find that the proportion of establishments in the leading four states in 1948 was 37.1 percent.[2] By 1967 this had dropped to 32.7 percent for these same four states. This shift represented a growth in wholesale establishments in the

[2] Ibid.

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TABLE 6-3

CHANGES IN ESTABLISHMENT STRUCTURE IN WHOLESALING CONTRASTED WITH RETAILING, 1929-1967

	1929	*1939*	*1948*	*1958*	*1967*
Number of establishments (000)	163.8	190.4	216.1	287.0	311.5
Wholesale-retail establishment ratio	.11	.11	.13	.16	.18
Sales per wholesale establishment ($000)	399.3	282.6	835.7	995.5	1,475.1
Deflated sales per wholesale establishment ($000)	766.2	661.8	950.9	991.6	1,390.3
Wholesale-retail establishment sales ratio (deflated)	13.0	12.5	11.0	9.0	8.8
Sales per wholesale employee ($000)	40.7	30.9	74.1	96.8	126.2
Deflated sales per wholesale employee ($000)	78.2	72.5	84.4	96.4	118.9
Wholesale-retail employee sales ratio (deflated)	5.4	4.9	5.1	4.7	4.7

Source: *Census of Business*, Bureau of the Census (Washington, D.C.: Government Printing Office), various years.

top four states of 28 percent versus 62 percent for the remainder. To a rather surprising degree, the overall distribution of wholesale establishments approaches that of the population in general.

Determinants of the number of wholesale establishments in each state may be derived from our cross-sectional study of wholesaling. Excellent predictors of the total number of establishments in each state are shown in the following equation where M and S represent the number of manufacturers and retailers, respectively, and A the physical area in square miles:

$$W_e = -658.77 + \underset{(.07)}{.46M} + \underset{(.02)}{.09S} + \underset{(.004)}{.01A}\ , \qquad (R = .99) \tag{6.2}$$

The coefficients show that a wholesaler is required for every two manufacturing establishments and one for about every ten retailers. Larger states require more establishments than smaller, a relationship directly in line with predictions from our distance/lot-size model of Chapter 1.

What is not apparent here, however, is precisely why the ratio of wholesale to retail establishments should be increasing. Equation (6.3), where we have used the ratio of wholesale to total retail and manufacturing establishments, W_c, provides some answers comparable to what we saw in our examination of wholesaler-retail sales ratios:

$$(6.3) \qquad W_C = -.067 + .012Y_C + .0098M_C + .0011U, \quad (R = .88)$$
$$(.005) \quad (.0036) \quad (.0002)$$

where per capita income (in thousands of dollars), manufacturers per capita (in thousands), and percentage of urbanization are represented by Y_C, M_C, and U, respectively. From the coefficients we see that urban, high-income areas open up a range of wholesale opportunities. These are the places where the industrial market is the deepest. The more "round about" the economic system, the deeper the wholesaler penetration. Wealthy areas also buy a large number of services from hospitals, governments, and schools, which, in turn, require supplies and equipment from wholesale sources. They offer new markets for relatively specialized wholesale firms. Given these results, again we find that industrialization opens more doors to these middlemen than it closes, and that this factor accounts for the upward trend over time of the W/R ratio.

Establishment Size

Many of the previous results are reflected in our data on average wholesaler-establishment size. From Table 6-3 we see that although this increased substantially between 1929 and 1967, the rate is not as high on a deflated-dollar basis. We also see that the differential in size between the typical wholesale and retail establishment has been continuously declining. Retail stores have been expanding in scale at a significantly faster rate than wholesalers. Again this points to the fact that wholesalers have been seeking out market niches that do not require high sales volumes to be competitive.

Regression results from our cross-section study show that the size of the average wholesale establishment is closely associated with the relative importance of wholesale business in the state, wage rates, and area. This may be seen in Equation (6.4):

$$(6.4) \qquad W_S = 186.55 + 324.24Z + 131.10P - .002A, \qquad (R = .88)$$
$$(50.6) \qquad (49.7) \qquad (.0005)$$

where W_s is establishment size (in thousands of dollars), Z is the measure of the relative importance of wholesaling (the volume of wholesaler sales in thousands of dollars divided by the population, also in thousands), P represents the average wholesale wages per employee per year by state, and A is the area in square miles. Given a more concentrated distribution of wholesale sales than of institutions, the Z variable distinguishes among states according to factors that generate wholesale-market opportunities. These include such

situations as specialized production zones–agriculture or apparel, for instance–and distribution points derived from centrality in location or transporation transfer points (for example, port facilities). The strong relationship between Z and W_s indicates that, in states favored by a particular wholesale-market opportunity, the additional volume is obtained through an increase in establishment size rather than an expansion in their number. This result obtains directly from the extremely strong relationship between the number of wholesale institutions and population. If S is wholesale sales and N is population, and since $W_e = f(N)$, then $W_s = S/W_e = g\,(S/N)$.

One implication of this finding is that because wholesale services, as measured by the presence of establishments, are local necessities, the operation of such institutions is constrained to less than the optimal scale in less-promising markets. Hence, where market opportunities are larger, the expansion path is along the growth of the average size of establishment to achieve savings inherent in the operation.

The positive association of wage rate with wholesale-establishment size provides further entrepreneurial incentive to operate upon the largest possible scale. Smaller than optimal establishments reflect inefficient use of labor. Where wage rates are high, the payoff from efficiency is more apparent.

The sheer size of the state has a negative association with establishment size. Larger states almost invariably have wide stretches of rural territory. The results from the regression equation indicate that it is less expensive to serve these more rural zones through the operation of a dispersed group of smaller wholesalers than by direct shipments from a large central market.

Labor Productivity

In the realm of labor productivity, Table 6-3 shows wholesalers making a bit less progress than retailers. Sales per worker, on a deflated basis, increased by approximately 50 percent during the period between 1929 and 1967. Compared to retailing, we see the wholesaler ratio moving irregularly in the retailer's favor. In 1967 there were about twelve employees in each wholesale establishment–about twice the number in the typical retail organization.

This relative decline in the wholesaler sector is most likely the result of the more rapid expansion in retail store size. The elimination of many marginal retailers provided a strong upward thrust in efficiency not matched by wholesalers. Indeed, because retailers were

integrating backward (which decreases the sales/employee ratio during this period and many wholesalers were shedding functions (which should enhance the ratio) the figures in Table 6-3 probably understate the relative progress of retailing in productivity.

From our cross-section study, we again see the role of market opportunity as a factor affecting wholesale performance. In Equation (6.5), W_p measures wholesale employee sales in thousands of dollars:

$$(6.5) \quad W_p = -23.89 + 21.98Z + .38F_c + 14.18P, \qquad (R = .96)$$
$$(1.86) \quad (.047) \quad (2.42)$$

where Z and P represent measures of market opportunity and wages, as before, and F_c equals the number of farms per thousand persons in the state. All three induce higher productivity. Variables Z and F_c show that where the relative volume of business obtainable is strong, making it possible for wholesalers to operate at the most efficient scale possible, productivity is enhanced. As for P, where high wages are encountered, managers conserve on labor to reduce cost, improving productivity in the process.

CHANGES IN MARKET POSITION OF COMPETING WHOLESALERS

Our study of wholesale-market structure now shifts to an examination of the competitive positions held by the basic five types of institutions we defined earlier. A broad perspective of all five types will be taken in this section. Later we will turn to a more detailed examination of the market strengths and weaknesses of the principal three institutions: manufacturer branches, merchant-wholesalers, and agents.

The competitive position of the different wholesaler institutions, according to market share, is shown in Table 6-4. Here we see that of the five, the merchant-wholesaler and the manufacturers' sales branch and office have increasingly accounted for the bulk of the business. In 1967 these two jointly held 79 percent of wholesaler sales volume, up from 67.9 percent in 1929.

Within the manufacturer-operated group two additional subtypes are noted—the branch and the office. The former carries stocks of goods and operates in a fashion comparable to a merchant-wholesaler. The latter is but an office for salesmen, functioning in many ways like an agent. The table shows this latter form of wholesaling to be the one with the greatest rate of growth. To a major extent, this

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TABLE 6-4

PERCENTAGE DIVISION OF SALES AMONG MAJOR WHOLESALER TYPES FOR 1929 THROUGH 1967

	1929	*1939*	*1948*	*1958*	*1967*
Merchant-wholesalers	43.2	40.6	42.4	42.7	44.8
Manufacturer sales branches and offices	24.7	26.5	28.1	30.7	34.2
Sales branches	n.a.	17.5	15.8	14.6	14.6
Sales offices	n.a.	8.5	12.3	16.1	19.6
Petroleum bulk plants	3.7	7.1	5.8	7.1	5.4
Agents and brokers	22.2	22.0	18.2	16.3	13.3
Assemblers	6.2	3.9	5.5	3.2	2.2
Total (percent)	100.0	100.0	100.0	100.0	100.0
Sales ($000,000)	65,378	53,766	180,576	285,727	459,476

Source: *Census of Business*, Bureau of the Census (Washington, D.C.: Government Printing Office), various years.

development reflects the declining need for local wholesale inventories. Manufacturers find that they require salesmen in the field, but can often ship directly to their customers. The data, however, do not fully disclose the extent to which the manufacturers may be employing other inventory depots not located directly at the sales office. One regional warehouse, for example, may serve several sales offices. Alternatively, the manufacturer may be employing public warehouse facilities–particularly in small territories–rather than constructing his own.

Within the other three classes, the major weakness is to be found with the agent and broker group. Here growth has consistently lagged behind the others with the proportion of wholesaler sales declining from 22.2 percent in 1929 to 13.3 percent in 1967. The position of assemblers has varied widely over the period covered by the data, largely because of wide shifts in the price of agricultural products. These were particularly severe from 1948 to 1963, with the wholesale index of food prices dropping from 117 to 96 while the average price for all wholesale commodities was rising from an index of 88 to one of 100. If food prices had varied in the same manner, the market share of assemblers in 1963 would have been closer to 4 percent. The fact that this is still less than the level of 1929 indicates the declining importance of food as an element in the flow of all other goods.

Another perspective of market position provides insight about the influx of the large number of new establishments in wholesaling. In Table 6-5, the number of business places operated by each group is compared, in percentage, to the total. This shows that the great

TABLE 6-5

PERCENTAGE DIVISION OF ESTABLISHMENTS AMONG MAJOR WHOLESALER TYPES FOR 1929 THROUGH 1967

	1929	*1939*	*1948*	*1958*	*1967*
Merchant-wholesalers	47.0	51.5	59.7	66.4	68.4
Manufacturer sales branches and offices	10.3	9.4	11.0	8.8	9.9
Sales branches	n.a	6.4	7.3	5.3	5.4
Sales offices	n.a	2.5	3.7	3.5	4.5
Petroleum bulk plants	12.0	16.2	13.1	10.6	9.7
Agents and brokers	11.3	11.1	8.4	9.3	8.5
Assemblers	19.4	11.8	7.8	4.9	3.6
Total (percent)	100.0	100.0	100.0	100.0	100.0
Total establishments	163,830	190,379	216,099	287,043	311,464

Source: *Census of Business*, Bureau of the Census (Washington, D.C.: Government Printing Office), various years.

majority of new operations has consisted of merchant-wholesalers. The proportion of these establishments grew from 47 percent in 1929 to over 68 percent in 1967. These large numbers suggest that one important competitive edge for merchant-wholesalers is their closeness to customers and their ability to deliver goods more quickly. It has provided a basis for relatively easy entry.

Important establishment gains have been registered by the manufacturers' sales office, but losses were incurred in the three other major classes. Particularly striking was the reduction in the ranks of the assemblers, an absolute as well as relative decline. It will be recalled from our statistics in the previous chapter that the extent of sales through wholesalers for farm commodities was increasing as supply lines lengthened across the United States. The period from 1929 to 1967 witnessed the rationalization of this industry, with the trend toward lower wholesaler participation being incurred at a later date than in some of the other consumer-goods industries.

Competitive Position by Markets: Industrial Goods

We may further sharpen our image of the changing position of different wholesale types by examining their roles within the two markets of industrial and consumer goods. To accomplish this, we use additional census statistics detailing the types of customers to whom wholesalers sell. Although these are subject to various estimating errors, they provide useful insight.

The census data with which we shall work provide information

on the proportion of sales made to different markets by four of the five wholesaler operating types. (Data for petroleum bulk plants are too incomplete for use in this analysis.) The most important three of these markets are industrial users, retailers, and other wholesalers. For example, in 1963, manufacturer sales offices and branches divided their business among these by 44, 32, and 19 percent, respectively. The remaining 5 percent went to export, farmers, and ultimate consumers. These figures indicate that at least 44 percent of this type of wholesaler sales should be included in the industrial-market category. But what about the 19 percent that went to other wholesalers?

These sales represent complementary relationships among wholesale institutions and reflect the double counting of wholesale transactions mentioned earlier. The extent of this secondary trade, as it will be referred to here, differs by product line. In the sale of automotive parts, manufacturer sales branches and offices do more business with other wholesalers–almost invariably merchant-wholesalers–than with retailers. For automotive tires the reverse is true.

By assuming that the great bulk of secondary sales made by the four operating types is directed toward merchant-wholesalers, we can employ this latter group's distribution of sales as a basis for the division of secondary sales between the industrial and ultimate consumer markets.[3] From Table 6-6 we see that these assumptions result in a total industrial-market volume for 1963 of $139 billion. Some $33 billion or 23.7 percent of these sales moved through two or more wholesale institutions in the form of secondary sales. For the manufacturer sales branches and offices, there was a participation in 45 percent of the industrial market volume–about 37 percent

[3]Since agents do not take title, relatively few secondary sales will be directed through this type wholesaler. It is also unlikely that manufacturers' sales branches and offices do any significant purchasing from other wholesaler types. Hence, for these two, plus merchant-wholesalers, our assumption seems reasonably valid. As for assemblers, some secondary sales may be directed to other members of their group. Many more, however, are likely to move to merchant-wholesalers, such as fresh-fruit and produce wholesalers, meat wholesalers, or grain merchants. Moreover, since volume in this category is low, errors are likely to be small from applying the assumption here as well.

The second assumption that secondary sales will be distributed according to the ratio of industrial and retailer market sales by merchant-wholesalers, is less strong. Nevertheless, because there are no data to suggest what the distribution might be, the safest ground appears to be to assume that sales will parallel the direct flows to these two markets. Since this proportion equals 44 percent, that percentage of the sales by manufacturers' sales offices and branches to other wholesalers is counted as being in the industrial market. For a further description of the derivation of primary and secondary sales, see Appendix B.

TABLE 6-6

COMPETITIVE POSITION OF WHOLESALERS IN THE INDUSTRIAL MARKET, 1939 AND 1963

	1939		*1963*	
	Dollars (billions)	*Percentage*	*Dollars (billions)*	*Percentage*
Sales, industrial market	16.2	100.0	139.0	100.0
Merchant-wholesalers	5.3	32.7	59.2	42.6
Primary	5.3	32.7	59.2	42.6
Secondary	.8	4.9	11.6	8.3
Manufacturer sales offices and branches	7.3	45.1	62.7	45.1
Primary	6.2	38.3	51.3	36.9
Secondary	1.1	6.8	11.4	8.2
Agents and brokers	5.7	35.2	32.3	23.2
Primary	4.2	25.9	23.7	17.0
Secondary	1.5	9.3	8.6	6.2
Assemblers	.9	5.6	6.2	4.5
Primary	.5	3.1	4.8	3.5
Secondary	.4	2.5	1.4	1.0
Total secondary trade	3.8	23.5	33.0	23.7

Source: *Census of Business, Wholesale Trade*, Bureau of the Census (Washington, D.C.: Government Printing Office), various years; and Appendix B.

from direct or primary sales and another 8 percent from secondary volume. Merchant-wholesalers held a 42.6 percent share. By virtue of our assumption that secondary sales are directed to merchant-wholesalers, all such volume must consequently be found in the primary sales as well (that is, the secondary sales of one merchant-wholesaler become the primary sales for another) and does not represent additional participation in the market.

Now, we see from the statistics on primary sales in Table 6-6 that in 1963 the merchant-wholesaler was the most important form of wholesale establishment. Moreover these data reveal a substantial improvement in market position from 1939 to 1963. For the most part, this gain was derived largely from losses incurred by agents and brokers. From total market participation, the table shows the manufacturer sales offices and branches maintained a slender lead in 1963, with agents and brokers again showing a drastic decline.

The total amount of secondary trade increased proportionately with the growth in primary volume. Relatively, however, the merchant-wholesaler gained market share. A greater proportion of

the secondary volume was being generated by his activities as opposed to the other three categories. Again, the agents and brokers suffered. Hence, while the average channel to the industrial buyer became no shorter, the composition of the institutions was significantly altered.

Given the assumption that all secondary sales are processed through merchant-wholesalers, one may note that in 1963 some $33 billion of the $59.2 billion came from this source. In other words, almost 56 percent of the merchant-wholesaler's volume was obtained from another wholesale institution. Large as this figure may seem, it nevertheless is a substantial reduction from the 72 percent (that is, $3.8 billion divided by $5.3 billion) of 1939. While both of these figures are biased upward because of the nature of the assumptions, it is still apparent that wholesalers have historically functioned within highly complex distributive channels. Recent growth suggests that many wholesalers have outgrown the need for such services and are handling a substantially larger proportion of their purchases on a direct basis. These findings parallel those derived from the study of the ultimate-consumer market, as shown in Table 6-7. Quite conceivably, the ability of the wholesaler to evolve in this direction has played an important role in maintaining his overall market position.

Competitive Position in the Ultimate Consumer Market

Repeating the same type of analysis for the consumer-goods market, we find a totally different picture in Table 6-7. Here we see an important decline in the proportion of business held by the merchant-wholesaler. His market share in 1963 amounted to 56.8 percent, down from 66.2 in 1939. The chief competitors have been the manufacturer sales offices and branches, whose market position rose from 22.4 to 33.3 percent. Including their secondary business, these establishments participated in almost 44.2 percent of sales to retailers in 1963.

Other heavy losers in this period were again the agents and brokers, mostly as the result of losses in secondary business. Given that wholesaler customers of agents buy in large lot sizes, our previous theoretical discussion of the importance of this fact suggests that this business should be the most vulnerable. Business to retailers held relatively well.

Concerning the importance of secondary trade in this market, Table 6-7 shows that this business dropped sharply from 45.3 percent in 1939 to 31.5 percent in 1963. Although the last percentage

TABLE 6-7

COMPETITIVE POSITION OF WHOLESALERS IN THE ULTIMATE CONSUMER MARKET, 1939 AND 1963

	1939		*1963*	
	Dollars (billions)	*Percentage*	*Dollars (billions)*	*Percentage*
Sales to retailers	20.1	100.0	113.1	100.0
Merchant-wholesalers	13.3	66.2	64.2	56.8
Primary	13.3	66.2	64.2	56.8
Secondary	1.9	9.5	12.6	11.1
Manufacturers sales offices and branches	7.2	35.8	50.0	44.2
Primary	4.5	22.4	37.7	33.3
Secondary	2.7	13.4	12.3	10.9
Agents and brokers	5.6	27.9	19.2	17.0
Primary	2.0	10.0	9.9	8.8
Secondary	3.6	17.9	9.3	8.2
Assemblers	1.2	6.0	2.8	2.5
Primary	.3	1.5	1.3	1.1
Secondary	.9	4.5	1.5	1.3
Total secondary trade	9.1	45.3	35.7	31.5

Source: *Census of Business, Wholesale Trade,* Bureau of the Census (Washington, D.C.: Government Printing Office), various years; and Appendix B.

reveals that double wholesaling is significantly more important for consumer than for industrial goods, the markets are becoming similar in this regard. The increased importance of the manufacturer sales offices and branches has reduced the length of the average channel for consumer goods.

[15]

The Development of the Franchise Distribution System in the U.S. Automobile Industry

THOMAS G. MARX

¶ *In this note on the history of automobile distribution methods in the United States, Dr. Marx examines the development of franchised dealerships. He traces the changes in the nature of consumer demand and the growing complexity in relations between manufacturers and their sales force that led to the predominance of the independent dealer franchise in the automobile "distribution channel."*

In the United States, automobiles are currently sold through an elaborate system of 20,841 independent franchised dealers (Table 1). The franchise agreement between the manufacturer and the dealer spells out the numerous sales and service responsibilities of each. There are no fees for the franchise, which is a nonassignable, personal services contract awarded to a qualified dealer, who is required to take an active part in the operation of the dealership. The franchise is for a specific location, but dealers can sell vehicles to any customer anywhere, at any price they negotiate. The dealer can also sell vehicles produced by other manufacturers.

This complex franchised dealer system has not always been the primary method of distribution in the automobile industry. It evolved, in response to changing economic conditions, from the very simple distribution system in use in the early years of the century. This note describes the distribution system and the structure of the automobile industry in two periods, from 1900 to 1920, and the 1950s. An explanation of the linkages between these two elements in the automobile industry suggests an analytical framework for interpreting the effects of industry changes on distribution systems in other industries as well.

DISTRIBUTION TO THE 1920S

During the first two decades of this century, virtually every type of distribution was tried in the automobile industry. Manufacturers sold vehicles directly through factory stores, and by mail order and con-

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signment arrangements, and indirectly through retail department stores, traveling salesmen, and wholesale distributors. Franchising also dates back to the earliest days of the industry, with William E. Metzger of Detroit having obtained the first franchise, for a steamer, in 1898.[1] As shown in Figure 1, an automobile manufacturer might sell vehicles through wholesale distributors, who resold to retail dealers as well as to final consumers; through factory-owned branches that sold directly to consumers and retail dealers; and directly to retail dealers. The primary distribution channel during this period, however, was the wholesale distributor, who often had a large, exclusive sales territory.

There were relatively few distribution problems during the first two decades of the century. The primary problem was producing enough vehicles to meet the steadily increasing demand.[2] The relationships between manufacturers and distributors were thus little more than simple market exchanges covering prices and quantities. Manufacturers and their dealers (primarily wholesalers) typically worked on short-term contracts (usually for one year, terminable by either party with thirty days' notice) in which all of their respective responsibilities were spelled out on a single page. Dealers provided very limited showroom or service and repair facilities, provided little financing or product promotion, and carried limited vehicle and parts inventories. Warranty service applied only to those parts and components produced by the manufacturer. An Oakland Motor Car Company warranty agreement in 1908 stipulated: "This agreement does not cover defective tires, rims, coils, radiators, and other equipment not manufactured by the Oakland Motor Car Company. All claims must be made by said dealer on the respective manufacturers of said tires, rims, coils, radiators, and other parts."[3]

DISTRIBUTION IN THE 1950S

By the 1950s, the simple market relationships that characterized the early distribution channels in the automobile industry had evolved into a complex franchised dealer system. The manufacturers assumed the functions of the wholesale distributors, many of whom became franchised, retail dealers. These dealers were now required to make substantial investments in facilities, service equipment, and vehicle and parts inventories to satisfy consumer demand. The quality of the deal-

[1] D. N. Thompson, *Franchise Operations and Antitrust* (Lexington, Mass., 1971), 20.
[2] Alfred P. Sloan, Jr., *My Years with General Motors* (New York, 1965), 282.
[3] Thomas G. Marx, "Automobile Distribution," unpublished paper.

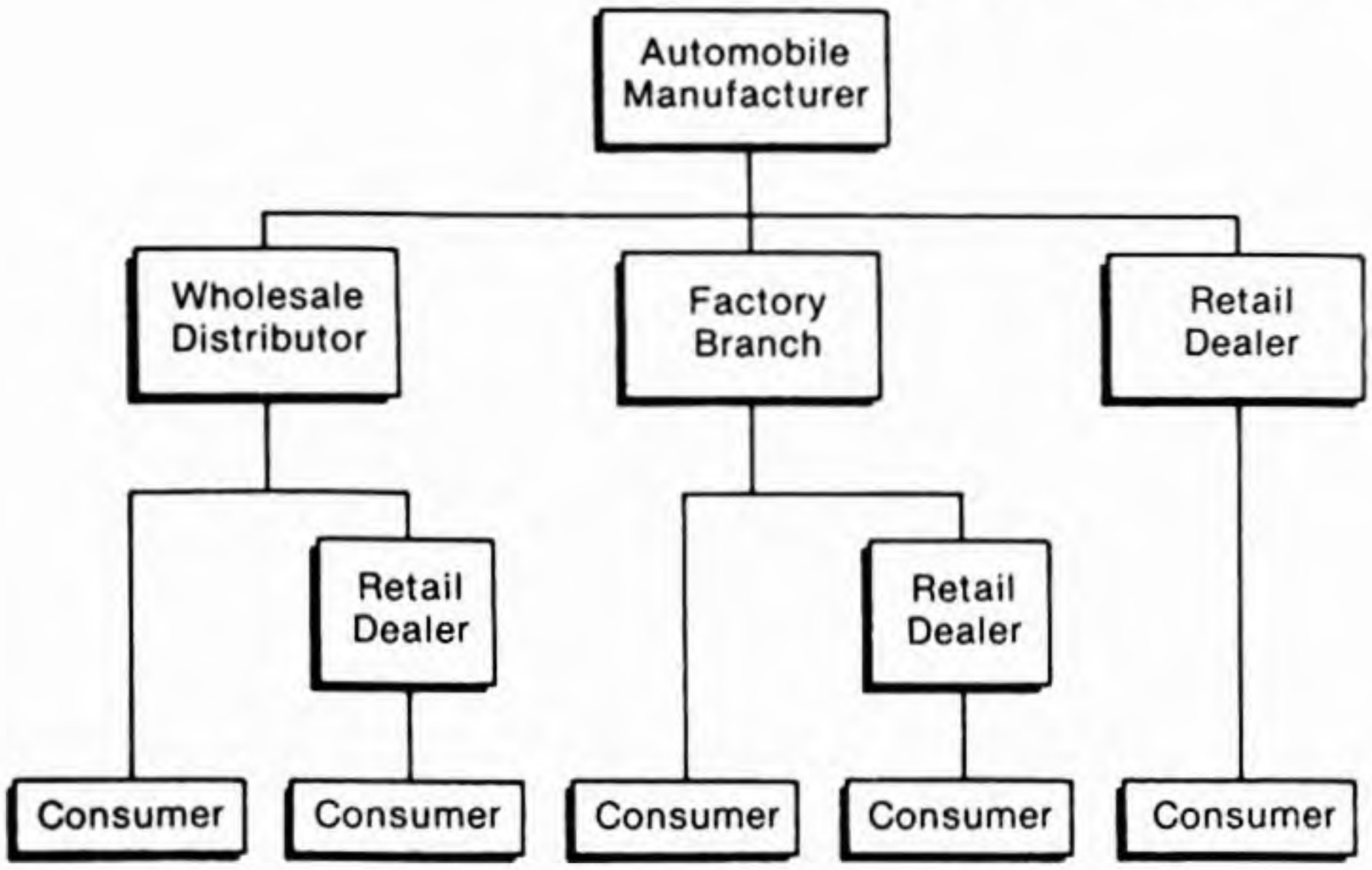

FIGURE 1

Automobile Distribution Systems, 1900–20

erships became more important than the number. As shown in Table 1, the total number of dealerships declined from a peak of 53,125 in 1927 to 46,821 in 1950, and continued to drop steadily thereafter, to 20,841 by 1 January 1984. Numerous changes were made in the franchise agreement from the late 1920s through the early 1950s. Standardized operating, inventory, financial, and ten-day sales reports were developed to gather data on consumer preferences, future purchase intentions, and vehicle inventories (1927–30). Carry-over allowances (a percentage of the list price of vehicles in stock) were provided on previous-model-year cars still in inventory when new models were introduced (1930). The manufacturers also introduced longer-term contracts and agreed to repurchase unused parts and accessories, inventories, and specialized tools, signs, and equipment, and to help the dealer locate a purchaser for his premises upon termination of a dealership (1935–40). Finally, the manufacturers introduced dealer relations boards (1938) and independent umpires (1955) to referee disputes between manufacturers and dealers to ensure that dealers' equities received fair consideration in all relations with the manufacturer.

Manufacturers began to require all dealers to provide adequate promotional and service support for the products they sold. To ensure the provision of adequate repair and warranty services, manufacturers be-

TABLE 1

TOTAL U.S. PASSENGER CAR DEALERSHIPS 1923–84

YEAR (1 JAN.)	NUMBER OF DEALERSHIPS	YEAR (1 JAN.)	NUMBER OF DEALERSHIPS
1984	20,841[a]	1962	31,331
1983	20,799[a]	1961	32,482
1982	21,680[b]	1960	33,658
1981	21,772	1959	35,077
1980	23,379	1958	37,188
1979	24,051	1957	37,982
1978	24,147	1956	41,018
1977	24,268	1955	40,374
1976	24,453	1954	41,910
1975	24,980	1953	45,191
1974	25,349	1952	46,014
1973	25,441	1951	47,543
1972	25,621	1950	46,821
1971	26,126	1949	49,173
1970	27,071	1948	46,092
1969	27,486	1947	45,580
1968	27,784	1945	30,110
1967	28,422	1940	39,258
1966	30,278	1935	35,977
1965	30,691	1930	51,560
1964	30,827	1927	53,125
1963	30,853	1923	43,588

Source: Automotive News (various issues).
[a]Includes Renault
[b]Includes VW

gan requiring dealers to maintain sufficient facilities, tools, equipment, parts, and trained personnel to service the vehicles they sold, at the same time introducing a wide range of incentives to encourage dealer compliance. The manufacturers agreed to repurchase specialized tools, equipment, and parts upon termination, and gave dealers an obsolescence allowance equal to a percentage of annual parts purchased to encourage them to carry an adequate stock. The manufacturers also began providing substantial training for dealer mechanics and service personnel. General Motors, for example, established a national network of thirty dealer service training centers in the 1950s to instruct dealers in the latest methods of servicing new vehicles and components. GM also operates a fleet of over one hundred mobile training units that extend training right into the dealerships.

Warranty work has become a multibillion-dollar business in the auto

industry. The manufacturers have introduced numerous monitoring and incentive mechanisms to promote efficient service. Warranty payments, for example, are based on allowable repair times to prevent excessive charges, which dealers would simply pass on to manufacturers.

Despite elaborate and extensive monitoring, enforcement, assistance, information, and incentive mechanisms within the franchise system, the hallmark of the automobile distribution system remains the independently owned and operated dealership. The manufacturers did not attempt to centralize distribution through factory-owned outlets which, in many respects, would have greatly simplified the distribution channel and the complex relationship between manufacturers and dealers. Why?

CHANGES IN THE STRUCTURE OF THE AUTOMOBILE INDUSTRY

The major changes which occurred in the automobile distribution system were accompanied by fundamental changes in the structure of the automobile industry. From 1900 to 1920, over six hundred companies attempted to produce an automobile. Most were small, undercapitalized companies that never produced more than a few vehicles, despite the phenomenal sales growth during this period. Auto production increased from about 4,000 vehicles in 1900 to over 1.9 million by 1920. The strong, largely cash, and largely recreational demand for automobiles continuously exceeded the supply, so that the primary distribution problem was getting enough cars to the dealers.

The number of dealers also increased dramatically into the twenties, spurred on by the great consumer demand and the relative directness of the manufacturer-dealer relationship. The technological simplicity of the early automobiles limited the need for large investments in specialized service and warranty facilities and equipment. Short production lead times and straightforward consumer demand for basic transportation also limited the need for long-term demand forecasting and consumer research. There were also relatively few used cars, so that dealers did not have to handle trade-ins when selling new cars as they normally do today. With steadily increasing sales and limited service obligations, car and parts inventory problems were minimal, and, because models did not change from year to year, no end-of-year clearance was necessary. Under these conditions, consumer demand could be satisfied with a simple distribution channel in which manufacturer-dealer relationships were spelled out on a single page.

The phenomenal growth in demand did not continue after 1920,

1907–8 OLDSMOBILE DEALERSHIP

This early dealership, with its inventory of straight- and curved-dash Oldsmobiles displayed on the street, shows the limited capital investment in showroom and service and repair facilities required at the turn of the century. (Photograph courtesy of Oldsmobile Division, General Motors Corporation.)

however; the output of passenger cars declined sharply in 1921, and then fluctuated throughout the remainder of the prewar period. Production of 3,179,385 passenger cars in 1940 was still below the output in 1925. The inevitable result of this slowing of demand growth was summarized by Alfred P. Sloan, Jr.: "Between 1923–29 the leveling of demand for new cars logically resulted in a change of emphasis in the industry from production to distribution. On the sales end that meant a change from easy selling to hard selling. Dealer problems of an entirely new nature began to arise."[3] Production capacity now exceeded demand; yet the large manufacturers needed to maintain high volume in order to produce efficiently. Production levels became a source of conflict, with manufacturers wanting to produce more cars than dealers believed they could profitably sell. Further, demand was rapidly changing from first-car to replacement-car demand. By 1929, dealers were handling more used than new cars, and as a result each sale be-

MODERN CADILLAC DEALERSHIP

This 1980s Cadillac dealership shows the substantial changes in dealer facilities necessitated by the increasing sophistication of customer demands for performance, reliability, comfort, and style; by the growing technological complexity of the vehicle; and by the increasing scope of the dealers' functions, including inspection and make-ready, sales promotion and product demonstration, acceptance of trade-ins, and repair, recall, and warranty services. (Photograph courtesy of Consumer Sales and Service Staff, General Motors Corporation.)

came a unique trading proposition. Consumers also began demanding greater vehicle performance, comfort, and reliability as the automobile became the primary means of personal mobility rather than a recreational vehicle used mainly on weekends.

These changes in consumer demand greatly increased the importance of dealer service and warranty coverage. The growing importance of styling in the 1920s and the introduction of the annual model change also created new inventory problems, particularly at the end of the year, when new models were introduced. These changes made accurate information about consumer preferences and future purchase plans essential to product planning. At the same time, the demand for greater reliability and performance, and the technological advances that provided them, substantially increased production lead times—

which further increased the importance of long-range demand forecasting. These changes greatly augmented the cost, complexity, capital investment, and scope of the dealers' participation. To the established selling role were added functions like inspection and make-ready, sales promotion, acceptance of trade-ins, repair, and recall and warranty services.

ECONOMIC THEORY

The franchise distribution system is not the product of a grand plan. It is the cumulative result of auto manufacturer responses to specific distribution problems created by changing economic conditions as the industry matured. The challenge for business history research is to impose an analytical framework on the historical evolution of the industry that will explain the relationships between changes in the industry and the development of the distribution channel. Such a framework is outlined here to illustrate how theory and history can be combined in future distribution-channel research to explain these relationships.

The distribution system in any industry must be organized to ensure that all consumer demands for goods, delivery, information, and service are met. The actions of manufacturers, jobbers, wholesalers, and retailers must be highly coordinated to meet these demands effectively. The structure of the distribution channel necessary to provide this coordination depends primarily on the level of market uncertainty and the degree of interdependence among the members of the channel.

Coordination is relatively easy to achieve in static or predictable markets with little interdependence between manufacturers and dealers. In these circumstances, a fairly simple distribution system characterized by short-term relationships covering little more than prices and quantities is sufficient; the distribution channel is simply a series of market exchanges beginning with the manufacturer and ending with the final consumer. In markets characterized by substantial uncertainty and manufacturer-dealer interdependence, however, a much more complex distribution system is necessary to obtain the coordination necessary to satisfy consumer demands.

The changes in the structure of the automobile industry between 1920 and 1950 substantially increased market uncertainty and manufacturer-dealer interdependence. As a result, the relatively simple distribution system in existence in the 1920s could no longer deliver the coordination necessary to meet increasingly diverse and sophisticated consumer demands for products and services.

The level of uncertainty in the industry escalated with widening fluctuations in sales, the introduction of annual model changes, longer production lead times, and the growth of consumer demands for performance, reliability, and comfort. At the same time, the interdependence between manufacturers and dealers grew with the size of the dealers' financial investments in specialized distribution facilities; with the importance of dealer repair and warranty services; with the higher level of retail promotion necessary to counteract the drop in demand growth; and with the increasing role of dealers as a source of market information as consumer demands became harder to predict, especially by those removed from immediate consumer contact.

The inability to coordinate the distribution of automobiles through simple market exchange in this uncertain and interdependent environment led to the introduction of the numerous internal monitoring, enforcement, and incentive mechanisms described above. Market forecasts and ten-day sales reports, for example, provided a common information base for coordinated planning at both the manufacturing and the retail level.[4] The growing interdependence between manufacturers and dealers magnified the impact of each channel member's decisions on the profits of the others. The manufacturers responded to this situation by assuming some of the increased risk to the dealers: by guaranteeing repurchase of unused parts, signs, and equipment upon termination, and by providing allowances on unsold cars.[5]

The difficulty of achieving coordination under conditions of substantial uncertainty and interdependence also explains the continued reliance on the independent dealer as the pillar of the distribution channel. The acceptance of trade-ins made every sales transaction unique and greatly complicated the price and profit calculations, which in-

[4] This growing uncertainty increased the importance of a common data base, as illustrated by the 1924 inventory crisis in the auto industry, which led to the introduction of the ten-day sales reports.

> The big gap in our information system at headquarters and in the divisions was at the retail level. We knew how many cars and trucks our divisions were selling to our dealers, but we did not know the current rate at which those vehicles were being resold to the public. We were not in touch with the actual retail market. The division managers gave me monthly reports on the number of cars in the hands of their dealers, but most of them estimated dealers' inventories without asking the dealers themselves to supply current data. This method—or lack of it—limited our sensitivity to changing market trends and required the staff at headquarters to base its sales forecasts on figures that were not only weak, but several weeks old. Such a time lag could be dangerous. It became, in fact, the source of a new crisis, (Sloan, *General Motors*, 129).

[5] As described by General Motors in the 1920s, these allowances on unsold cars ensured that manufacturing managers would not make decisions that ignored the interdependencies with dealers by putting more of the risks of excessive production on the plants:

> This policy [of carry-over allowances on unsold cars], I believe, was new in the industry when we began it. It reflected our desire to protect dealers against unreasonable production schedules in the latter months of the model year on the management of the divisions. It imposed a penalty on the factory in the form of an automatic assessment if for any reason there was an excess supply of cars in the model year. (Sloan, *General Motors*, 286).

volved the net effect of the new-car sale and the subsequent sale of the trade-in. Standard procedures could not be used to provide the coordination needed for effective centralized decision making. Moreover, decisions had to be made quickly to provide the on-the-spot flexibility needed when negotiating with customers about prices and terms of delivery. The information-processing and internal communications systems necessary for the rapid coordination of these millions of unique transactions lay far beyond the capabilities of the manufacturers, who therefore left these decisions with independent dealers, who individually negotiated prices and other terms with their customers.

CONCLUSION

This brief sketch of the historical development of the distribution system in the automobile industry has outlined an analytical framework for relating economic changes in the industry to changes in the distribution channel. This framework suggests that the franchise system is the result of automobile manufacturers' efforts to provide necessary channel coordination as economic changes in the industry increased market uncertainty and manufacturer-dealer interdependence. This analytical framework can be used to interpret the historical development of the distribution system, not only for automobiles, but for other industries as well.

[16]

A Review of Empirical Studies of Aggregate Marketing Costs and Productivity in the United States

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This article reviews empirical studies of aggregate marketing cost and aggregate marketing productivity in the United States. A methodological comparison is made of five cost studies for 1929 and seven productivity studies covering a period from 1869 to 1968. The cost studies do not clarify—one way or the other—if marketing costs too much or too little. The productivity studies, on the other hand, despite a variety of methodologies, reveal a rising secular trend over the past century. Thus, it may be concluded that irrespective of changes in cost, marketing is becoming more productive.

INTRODUCTION

Does distribution cost too much? Is marketing wasteful, inefficient, and unproductive? Such questions have been a recurrent theme during the evolution of marketing thought. Indeed, the discipline emerged largely in response to questions of how well the marketing system was performing and how it could be made to perform better. In one of the pioneering articles in the field, "Some Problems in Market Distribution," the problems that Shaw (1912) referred to are those of reducing high costs, wastes and inefficiencies in marketing and improving its productivity.

During the early decades in the development of marketing thought, questions of macro marketing performance were continually raised and assumed great significance to the discipline. Issues of performance however became clouded by considerable controversy, and writers frequently complained that "existing information . . . about marketing cost and efficiency is to a large degree unsatisfactory." (Clark 1922, p. 506). In response to critics, marketing scholars often found themselves defending against the "excessive criticisms of the productive efficiency of marketing" (Moriarty 1923, p. 222).

The controversy over marketing performance intensified, and the question: "Does distribution cost too much?" (Stewart and Dewhurst 1939), was followed by the rejoinder, "Does distribution cost enough!" (Mazur 1947). As a basis for judgment it became popular to compare "distribution costs" versus "production costs" as a percentage of the consumer's dollar. There were wide differences, however, in various authors' estimates of each. Stewart and Dewhurst (1939) reported a figure of 59 percent distribution and 41 percent production. Almost immediately these figures were challenged on technical grounds by Malenbaum (1941), who estimated distribution costs at 51 percent. Other authors (e.g., Converse 1940; Beckman 1940; Cox 1948) arrived at still other figures.

The difficulties of settling issues and reaching firm conclusions regarding aggregate costs and productivity have appeared almost intractable throughout the history of marketing thought. In 1951, the AMA established a committee (Sevin et al.) to report on the question of distribution costs, but many of the issues remained unsettled. A Symposium on Marketing Productivity was held in 1965 (Heskett), but few firm conclusions were reached.

The decades of the 1970s and 1980s brought a shift in disciplinary focus from macro to micro marketing. Even with the micro emphasis of marketing management, however, many writers have retained interest in questions of aggregate marketing performance. For example, after discussing some of the issues, McCarthy and Perreault (1990, p. 615) conclude: "Macro-marketing does *not* cost too much."

Ultimately, such questions can only be resolved by empirical data. And it was the search for answers that provided the impetus for actually measuring the performance of the aggregate marketing system. Empirical measures of performance have focused on two areas: cost and productivity. Cost is related to the sacrifice of resources used in performing

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marketing activities. Productivity is concerned with how well the marketing process transforms inputs into outputs. Of all the measures of marketing performance (Shaw 1986), cost and productivity are by far the most well conceptualized and most frequently discussed in the literature.

There have been five comparable studies of aggregate marketing costs in the U.S. for a common year. There have been more than a half dozen studies of aggregate marketing productivity in the U.S. covering overlapping time periods. However, there have been no published comparisons of either.[1] The purpose of this article is to present—side by side—comparisons of empirical studies measuring aggregate marketing costs and aggregate marketing productivity.

The value of such comparisons lie in the lessons they hold for future research: the strengths and weaknesses of alternative approaches and methodologies, procedures to surmount the considerable difficulties of data sources, and acceptance of the very large part qualitative judgment plays in quantitative analysis. Only when these lessons are learned will it be possible to advance our knowledge of macro marketing performance.

The difficulties and importance of measuring the aggregate marketing system was stated succinctly and humorously by Vaile, Grether, and Cox (1952, p. 652): "Anyone who undertakes to apply quantitative methods to [marketing] analysis needs to preserve full freedom for the operation of his judgment, his sense of balance, and his sense of humor." But they conclude on a more serious note: "The need for factual studies is great, however, and efforts to promote them cannot be abandoned."

STUDIES OF AGGREGATE MARKETING COSTS

The First Census of Distribution was undertaken for the year 1929. With the availability of data, five studies were published, between 1932 and 1940, which estimated the aggregate costs of marketing in the United States. Referred to as the "Total Costs of Distribution," these studies were concerned with measuring some or all of the following activities: retailing and wholesaling, transportation, advertising, and the marketing activities performed by manufacturing, agriculture, and mining.

Weld made the earliest empirical cost study in 1932. Written for the popular press it was titled: "Our 27 Billion Dollar Marketing Bill: It Gobbles Up One-Third of Our National Income."[2] A more scholarly and balanced approach was "The Quantitative Position of Marketing in the U.S.," by Galbraith and Black in 1935.

The most influential and controversial of the five cost measurement studies, however, was *Does Distribution Cost Too Much?*, by Stewart and Dewhurst in 1939. In the opening sentence of their book the underlying issue is raised: "The idea that it costs too much to distribute goods and that modern methods of distribution are wasteful and inefficient has taken root in the public mind" (1939, p. 3).

Stewart and Dewhurst offer several reasons for "higher marketing costs," including the fact "that distribution today does a vastly bigger job than it did fifty years ago" (p. 292). Nevertheless, the authors argue the problem facing marketing "is to preserve the economies of mass production by preventing the added cost of mass distribution from canceling them out." (p. 294). Citing an impressive array of statistics, they conclude that, "yes," marketing is indeed wasteful, and the distribution "process undoubtedly costs too much" (p. 348).

On the other hand, two additional empirical studies, one by Converse and Huegy (1940) and the other by Engle (1940, p. 123) arrive at a diametrically opposed conclusion: "distribution costs are *not* too high." Their estimates of total distribution costs and those found in the other studies are shown in Table 1.

Examination of Table 1 indicates that there is a relatively small variance among estimates for the retail and wholesale trade, ranging from $19.1 to $21.4 billion. There is a much larger variance, ranging from $24.4 to $39.4 billion, however, for the estimates of "total distribution costs."

These variance are due primarily to a lack of census data for a number of items which the various authors believed should be included in total distribution costs. It was therefore necessary to estimate some items indirectly, and not surprisingly different authors using a variety of diverse sources arrived at differing estimates. Although the five studies contain widely different estimates of the total costs of distribution, most are based on the same general conception of what should be counted and include substantially the same cost items.

The published descriptions make it virtually impossible to reconstruct the precise operational definition of total distribution costs for any of the studies. Yet each author follows the same basic approach. Total marketing cost is the sum of the gross margins of those firms primarily engaged in the distributive trades (wholesaling and retailing), freight transportation (with one exception), plus the marketing expenditures of manufacturers, and in a few cases some other industries (depending on the availability of data), with respect to the total volume of products sold to ultimate household buyers. Because of the common approach, comparisons among these five studies are meaningful.

Retailing is by far the largest component of total distribution costs. The highest estimate of $14 billion for retail costs is reported by Weld. He rounds up total retail sales given in the 1929 Census of Distribution (from $49 to $50 billion) and includes sales through direct and other channels (approximated at $3 billion). Weld then multiplies this figure ($53 billion) by a sample of retail gross margins for Washington D.C. (28 percent); which coincidentally is equal to the figure given in the 1935 Census of Business for the U.S. The product is $14.8 billion. Believing the gross margin figures for the Washington D.C. sample are two or three percent higher than the national average (they were not, as the 1935 Census subsequently showed), and preferring to err on the side of conservatism, he rounds down his estimate of retail costs to an even $14.0 billion.

Galbraith and Black, as well as Converse and Huegy, give identical estimates of $13.8 billions of dollars. Converse and Huegy report simply that their figure was taken from the Census. Galbraith and Black state that it is the Census of Distribution figure for total sales by retailers ($49 billion) multiplied by the average retail gross margin (28

TABLE 1
Estimates of Total Distribution Costs in the United States for 1929 (billions of dollars)

	Weld (1932)	*Galbraith & Black (1935)*	*Stewart & Dewhurst (1939)*	*Engle (1940)* (avg)	*Converse & Huegy (1940)*
Retailing	14.0	13.8	12.6	11.8	13.8
Wholesaling	6.0	7.0	7.0	7.3	7.6
Subtotal	20.0	20.8	19.6	19.1	21.4
Manufacturers' marketing costs	3.0	3.6	9.1	7.5	10.5
Other costs	—	—	1.0	1.7	2.2
Subtotal	23.0	24.4	29.7	28.3	34.1
Transportation	4.0	—	8.8	3.7	5.3
GRAND TOTAL	27.0	24.4	38.5	32.0	39.4

L.D. Weld, "Our 27 Billion Dollar Marketing Bill," *Printer's Ink Monthly* XXIV (March, 1932), pp. 22–23, 61–62.
J.K. Galbraith and J.D. Black, "The Quantitative Position of Marketing in the United States," *Quarterly Journal of Economics*, XLIV (May, 1935), pp. 394–415.
P.W. Stewart and J.F. Dewhurst, *Does Distribution Cost Too Much?* (New York: Twentieth Century Fund, 1939), p. 118.
N.H. Engle, "Cost and Profits in Marketing," *Annals of the American Academy of Political and Social Sciences* CC IX (May, 1940), pp. 122–132.
P.D. Converse and H.W. Huegy, *The Elements of Marketing* (2nd ed., New York: Prentice-Hall, 1940), Appendix A, p. 817.

percent) given in the 1935 Census of Business, which was apparently used by several authors to supplement the 1929 Census of Distribution figures.

Stewart and Dewhurst (1939) report a lower estimate of $12.6 billion. This figure includes data from supplemental sources and is based on operating expenses. Their operating expense data excludes interest costs. Since these costs were included in the 1929 Census of Distribution and were not added in the later 1935 Census of Business figures, this would account for a substantial portion of the difference.

Engle provides no explanation for the source of his figures, although he does state that it includes an estimate of profits, advertising expenditures, and an indeterminate amount of freight expense. He reports that retail costs range from $11.5 to 12.0 billion, which is the lowest estimate of all the studies.

The various estimates for wholesaling are in close agreement. The 1929 Census of Distribution gives the total wholesale volume of sales at $69 billion, but provides neither gross margins nor operating expenses. The authors estimated these figures from supplemental sources; with the exception of Weld who used gross approximations and arrived at $6.0 billion. The remaining authors show a relatively small variance between $7.0 and 7.6 billion reflecting minor differences in estimation.

Retail and wholesale estimates for each of the five studies show only a small variance. Consequently, the aggregate subtotal for the distributive trades also show only a slight difference ranging from $19.1 to $21.4 billion.

The marketing costs of manufacturers were not included in the 1929 Census of Distribution. As a consequence the various authors again resorted to other sources. Two studies by Weld and by Galbraith and Black are based on the Total Sales of Manufactured Goods given in the 1929 Census of Distribution. Despite using a common source, the authors differ on both the total value of manufacturing sales and the estimated percentage of operating expenses going to marketing activities.

Weld takes total manufacturing sales as $70 billion, which he appears to have rounded-up; although he does not say why. He does state: "Suppose that we guess that manufacturers' sales expenses average 4 percent of sales. This is probably too low. But it adds another item of about 3 billion dollars to our total marketing bill" (1932, p. 23).

Galbraith and Black use the Census figure for total sales of manufactured goods of $63.408 billion. Citing Welds's estimate as probably too low, and "giving greater weight to . . . strongly advertised products," they choose an estimate of 5 percent. This results in manufacturers' marketing costs of $3.6 billion, and they comment: "There is little basis upon which to elaborate an argument" (1935, p. 400).

Two other studies, one by Stewart and Dewhurst and the other by Converse and Huegy are based largely on two sources. One is the 1935 Census of Business category: "Distribution of Manufacturers Sales." The second source is a 1931–1932 report: "An Analysis of the Distribution Costs of 312 Manufacturers" commissioned by the Association of National Advertisers in collaboration with the National Association of Cost Accountants. Again, despite using common sources, these two studies, like the previous two, also differ on the total dollar value of manufactures sales and the estimated percent going to marketing.

Stewart and Dewhurst use an estimate based on the distribution costs of manufacturers sales presented in the 1935 Census of Business. The Census figure totaled approximately $79 billion, and an estimate of distribution costs of approximately 9 percent was reported. The authors adjusted upwards to 13 percent, citing the sample survey of 312 manufacturers and an unidentified confidential study in 1931 which averages about 20 to 25 percent. The result is an

estimate of $9.1 billion.

Converse and Huegy use an estimate of 15 percent. Their figure is based on an adjustment upward from the 9 percent given in the 1935 Census, because they believed too few bulk products were included. Then they adjusted downward from the 23.8 percent reported in the survey of 312 manufacturing firms, because they thought it too high. Consequently, they arrive at the highest estimate of $10.5 billion.

Finally, Engle provides a range of $7.0 to $8.0 billion for manufacturers' distribution costs rather than a point estimate. Again, he not does indicate the source of his figures, but reports that it includes advertising expenditures and an indeterminate amount of freight expense.

The item "Other Costs" first appears in the Stewart and Dewhurst study. Their $1.0 billion total includes some national advertising expenses, the distribution costs for some extractive industries, and some finance charges on consumer installment purchases. In the Converse and Huegy study, "Other Costs," of $2.2 billion, are composed of estimates of the marketing expenses of agriculture, mining, and construction. Estimates of $1.5 to $2.0 billion are given by Engle, who describes his "Other Costs" as the distribution costs of producers other than manufacturers.

Again, the subtotals are in general agreement when allowances are made for the inclusion or exclusion of "Other Costs" and the wide variance in the somewhat arbitrary estimates of manufacturers' distribution expenses.

Transportation costs performed by specialized agencies are excluded by Galbraith and Black (1935, p. 396), from their definition of marketing, which centers on the "transfer of ownership of tangible goods." They argue that "the services of transportation in relation to marketing shows no logical differentiation from the services of storage . . . [therefore] the service of transportation may be . . . set apart by itself." (p. 397). Many earlier authors in marketing, such as Clark (1921), distinguished between the trade (ownership) and mechanical (transportation and storage) aspects of marketing costs.

The remaining studies include an estimate for transportation. Weld provides the lowest figure, but his estimate of $4 billion includes only railroad transportation. The highest figure of $8.8 billion is given by Stewart and Dewhurst. This estimate includes freight from railroads, waterways, highways, and pipelines (airlines were negligible). Apparently, some double counting of the figures are involved as transportation costs would also have been included in the operating expenses of other industries (e.g., retail, wholesale, and manufacture).

Converse and Huegy estimate $5.3 billion for transportation. They include rail and truck freight, but apparently exclude bulk transportation (barge and pipeline). Although they do not give their reasoning for this exclusion, it is probably because they were also using data which included bulk transportation in manufacturing costs and are thereby attempting to avoid double counting.

Finally, Engle provides no explanation for his transportation figures of $3.5 to $5.0 billion, but he notes that it excludes transportation costs included elsewhere. Since he includes these expenses in all of his other categories, it is not clear what transportation costs remain.

Thus, the empirical estimates for the Total Costs of Distribution ranging from $27.0 to $39.4 billion are not as widely divergent as they first appear, when allowances for various methods of estimation and the availability of data sources are considered. Moreover, this discussion of how the estimates of distribution costs were derived by the various authors, demonstrates how large a part personal judgment plays in any quantitative investigation of marketing performance.

In answer to the question so frequently raised in the literature: Does distribution cost too much? Stewart and Dewhurst say yes, giving a cost figure of $38.5 billion. On the other hand, Engle, as well as Converse and Huegy, think not, citing figures of approximately $32 and $39.4 billion, respectively.

Unfortunately, none of these cost figures offer an objective basis to answer the question. While aggregate cost indicates the magnitude of marketing activities in the economy, very little may be said regarding how well the activities are being performed on the basis of a single cost figure. Even a series of cost figures over time could not answer the question of whether distribution cost too much or too little. Cost is too limited to serve as a criterion for evaluating marketing performance because it does not consider the results of using resources.

To deal with this difficulty in evaluating macro marketing performance it became necessary to find a measure considering both costs and returns. Consequently, empirical studies shifted away from measures of total distribution costs toward measurement of the aggregate productivity of marketing.

STUDIES OF AGGREGATE MARKETING PRODUCTIVITY

There have been seven longitudinal studies of aggregate marketing productivity based on the ratio of outputs divided by inputs. Six of the studies were undertaken between 1939 and 1955 and cover periods ranging from 1869/70 to 1949/50. Taken together, they provide decade-by-decade estimates of productivity in marketing for the past eighty years. The seventh study, made in 1973, covers the period from 1948 to 1968 by half decades, and is discussed subsequently. The first six studies are shown in Table 2.

The most striking feature found in the studies of marketing productivity is that the secular trend is rising. Table 2 also shows the large variances in productivity estimates among the six studies. These differences are even more pronounced than in the five distribution cost studies (Table 1). This is because productivity measurement has two sources of variance: inputs and outputs. Since all six studies use the productivity ratio of output divided by input, the variances are due to what is included on both sides of the ratio. Again, the published explanations make it virtually impossible to reconstruct the precise content of each authors operational definition of inputs and outputs, but the commonality of approach make some comparisons meaningful.

On the input side, each of the studies use employment data based on the U.S. Census of Population. Most of the studies use the number of workers engaged in distribution; with the exceptions of Black and Houston, and Barger's Series II, which weighted the number of workers by hours of work (man-hours). The number of workers is a less refined

measure of inputs than the number of man-hours. The former are inflated because of the inclusion of part time employees who work fewer hours than full time workers, and the latter corrects this source of measurement contamination.

Since the number of workers has risen more rapidly than the number of man-hours, this correction reduces the input side of the ratio and increases the gain in productivity. This is seen by comparing the productivity figures for Barger's Series I, based on number of workers, and Series II, based on number of man-hours. Since the input data for both series are set against a common output, differences in Barger's two productivity ratios are due entirely to the alternative measures of input.

In either case, there is a large variance on the input side whether counting the number of workers or the number of man-hours employed in marketing. This difference is based on each author's determination of who should be included as a marketing worker and how to count them. All of the studies include wholesale and retail workers in toto in determining marketing input. Converse, and Stewart and Dewhurst, also include railroad workers.

The major difficulty in counting the number of workers in marketing was how to divide clerical (and sometimes managerial) personnel between production and distribution. Each author made a very rough estimate, which accounts for much of the difference on the denominator side of the productivity ratio.

Some idea of the difficulties of estimation may be seen from Giffin's explanation of one of Stewart and Dewhurst's "technical errors" that vastly overstated the number of clerical workers engaged in marketing. Taking the 1930 figures as an example, Giffin writes,

> it is evident that of the clerical workers . . . about 67 per cent belong to a 'specified' group which had an industrial attachment and 'unspecified' remainder of 33 per cent which had no stated attachment. Of the specified group 54 per cent is assignable to trade, but of the unspecified group only 22 per cent at most can be assigned to distribution. Furthermore, only a portion of this 22 per cent is assignable to the trade segment of distribution. I have assumed 54 per cent as assignable to trade, which is equivalent to adding 12 per cent of the unspecified clerical workers to trade. Stewart and Dewhurst appear to have made the mistake of assuming that 54 per cent of the unspecified clerical workers were assignable to trade. Thus their method assigns 76 per cent of all clerical workers to the distributive occupations. (1947, p. 243).

Difficulties of estimation lead Black and Houston (1950, p. 40) to observe: "The division of input costs between 'production' and 'marketing' is to a large extent arbitrary and is not wholly meaningful."

Although the magnitudes may be questionable, the direction of the input data are consistent across studies. Except for 1939, a year during the great depression and a time of massive unemployment, the secular trend of labor input-cost (however measured) is upward. Since a single factor cost is used to express the input side, this has technically become known as labor-productivity. As Black and Houston (1950) observed, it is important to distinguish between the *productivity of labor* and the *productivity with which labor is used*. Partial factor measures express the latter.

With regard to the numerator of the productivity ratio, there are even more significant variances because some authors use different concepts as well as different measures of output. Converse, Stewart and Dewhurst, and Giffin take output as the physical volume of all manufactured products.

TABLE 2
Estimates of Marketing Productivity in the United States from 1869/1870 to 1949/1950 (Index of Productivity)

Decade	*Converse (1939)*	*Stewart & Dewhurst (1939)*	*Giffin (1947)*	*Houston (1948)*	*Black & Houston (1950)*	*←Barger→ (1955)*	
						I	II
1869/1870	77	110[a]		79	77	70	69
1879/1880	107	123		100	96	93	92
1889/1890	112	103		101	101	89	88
1899/1900	100	100	100	100	100	100	100
1909/1910	114	109	129	112	120	108	118
1919/1920	129	124	145	131	143	115	134
1929/1930	136	114	134	140	151	125	150
1935	124						
1939/1940			151	129	138	106	141
1949/1950						120	178

[a]Base shifted from 1869/1870 = 100 to 1899/1900 = 100.

Paul D. Converse, "Labor Saving Devices in Marketing," *Journal of Marketing* (October, 1939), p. 156.
Paul W. Stewart and J.F. Dewhurst, *Does Distribution Cost too Much?* (New York: Twentieth Century Fund, 1939), Table D, p. 379.
R.R. Giffin, "Changing Output Per Person Employed in Trade, 1900 to 1940," *Journal of Marketing* (October, 1947), p. 244.
Neil T. Houston, *Methods of Efficiency Analysis in Marketing* (Cambridge, MA: Unpublished Doctoral Dissertation, Harvard University), pp. 114–117.
John D. Black and N.T. Houston, *Research-Use Efficiency in the Marketing of Farm Products* (Cambridge, MA: Harvard University Press, 1950), p. 33.
Harold Barger, *Distribution's Place in the American Economy Since 1869* (Princeton, NJ: Princeton University Press, 1955), p. 38.

This figure includes both industrial and consumer goods.

Converse uses several indexes based on the value of manufactured goods, including a Census publication on "the Growth of Manufacturers, 1899–1923" and Federal Reserve Board data from 1919 to 1935. Stewart and Dewhurst use an annual "Index of Physical Production" developed by the Federal Reserve Bank of New York. Giffin uses data from the National Bureau of Economic Research: "The Output of Manufacturing Industries, 1899–1937" as well as Federal Reserve Board data for 1940.

Black and Houston refine their measure of output to consumer goods. They use data developed by the National Bureau of Economic Research: "Value of Commodity Output since 1869." These data are limited to the physical volume of manufactured goods sold only to final household buyers. The volume of goods is weighted by an index of producer prices. The authors state that they would have preferred to weight products by consumer prices, but such an index was unavailable.

Barger develops his own index of the volume of physical products, which includes manufactured as well as agricultural goods sold to final household buyers. This index is weighted by gross margins for the distributive trades. To develop his output index Barger (1955, p. 114) states: "We have ransacked the record and have pieced together every available scrap of information."

A seventh productivity study was undertaken by Kendrick (1973) for the period from 1948 to 1968. His results are spliced to Barger's Series II data, as shown in Table 3.

Kendrick uses a measure of output similar to that used by Barger. Whereas Barger used sales weighted by gross margins, Kendrick uses the value added to sales. Value added is a conceptually superior measure, because it excludes purchased services which are included in gross margins. The actual empirical difference, however, is small. Nevertheless, it results in a slightly more rapid rise in outputs, hence the productivity ratio, compared to the data used by Barger.

On the input side, Kendrick uses establishment based man-hour data from the Census of Business, whereas Barger used data from the Census of Population. Bucklin (1978) notes that the data source based on population is measurement contaminated because temporarily unemployed workers respond to the survey by giving their former occupation, thereby inflating the data. The data source based on business includes only those actually working.

Kendrick goes beyond the labor-input data of his Series I, as well as all the previous studies discussed, and adds capital to labor in Series II. The combined inputs reflect a weighted average of both labor and capital, with the weights based on the proportionality of national income originating in each of the two input factors.

The estimates for capital are derived from Department of Commerce national income data for working capital and Internal Revenue Service data on fixed capital investment. Inventories, structures, and equipment are deflated by various price indexes. Bucklin (1978) observes that leased capital, which is commonly found in retailing, is not included in the data, thereby understating capital inputs and overstating the productivity increase in Series II. Nevertheless, by combining capital with labor inputs, Kendrick's work represents a large step forward in productivity measurement.

TABLE 3
Estimates of Marketing Productivity in the United States from 1869/1870 to 1968 (Index of Productivity)

Year	*Barger (1955)*	*Kendrick (1973)*	
	II	I	II
1869	38.8[a]		
1879	51.7		
1889	49.4		
1899	56.2		
1909	66.3		
1929	84.3		
1939	79.2		
1948/1949	100.0	100.0[b]	100.0[b]
1953		112.9	109.2
1958		126.4	120.8
1963		150.2	140.9
1968		178.5	156.4

[a]Base shifted from 1899 = 100 to 1949 = 100.
[b]Base shifted from 1958 = 100 to 1948 = 100.

Harold Barger, *Distribution's Place in the American Economy Since 1869* (Princeton, NJ: Princeton University Press, 1955), p. 38.
John W. Kendrick, *Productivity Trends in the United States, 1948–1969* (New York: Columbia University Press, 1973), p. 351.

CONCLUSION

With the empirical data in, what can be said about how well marketing is performing? Does it cost too much? Is it productive?

The aggregate cost studies, no matter how derived, do not support any conclusions regarding how well marketing is performing. Without consideration of returns, costs are too limited a measure to make judgments about whether marketing costs are too high or too low. Costs can provide information only about the magnitude of the activity.

The productivity studies, on the other hand, despite a variety of data sources and methodologies, clearly show that the secular trend is rising. Thus, irrespective of changes in costs, aggregate marketing productivity in the United States has increased significantly over the past century and, in this respect, marketing performance is improving.

Discussion of how estimates of aggregate marketing costs and productivity were derived demonstrates the difficulties of measurement, the ingenuity of approaches and methods for dealing with these problems, and the large role qualitative judgment plays in quantitative measurement of marketing performance. As useful as these studies are, however, much work on measuring marketing performance remains. Services, the largest and most rapidly growing sector of post-industrial economies, are not included in measures of macro marketing costs or productivity. Another neglected sector of the economy is the unpaid marketing efforts performed

by household buyers. To the extent that marketing activities are shifted from businesses to households, as in self-service for example, measures of aggregate marketing productivity will appear to improve, because household purchasing activity is not counted as an input-cost to the macro marketing system. Yet this represents little more than a shift from a measured to an unmeasured segment of the marketing process. Future research needs to incorporate both the work of service industries and of household purchasing activities into measures of aggregate marketing productivity.

Beyond productivity is the question of marketing effectiveness. In contrast to productivity, which is concerned with how well the marketing process transforms inputs into outputs, effectiveness is concerned with the larger question of how well the outputs match the goals of the marketing system. At present, measures of marketing effectiveness are in a rudimentary state.

The challenges of performance measurement are great. Yet as marketing scholars have remarked throughout the decades, despite the difficulties, the work is too important to be abandoned.

NOTES

1. Several significant studies of marketing cost and productivity, most notably Cox, Goodman, and Fichandler (1965) and Hall, Knapp, and Winston (1961) are not covered in this analysis. Although interesting in their own right, such studies are not directly comparable to those included here. The Cox et al. study, for example, measures marketing costs for 1947 rather than 1929, and obviously the data sources were very different. Similarly, the Hall et al. study measures productivity across three countries for a single year, rather than a single country across many decades. Consequently, these and other such studies were excluded.
2. Weld's data were developed for 1929 when the Gross National Product of the United States was only $103 billion. Compared with our contemporary $4.5 trillion dollar U.S. GNP for 1987, which is 43.7 times greater, the earlier figure appears almost puny. In "real" terms, however, using constant 1982 dollars, the 1929 GNP inflates to $710 billion, the 1987 GNP deflates to $3.8 trillion, and the latter is only 5.4 times larger than the former (*Statistical Abstract of the United States* 1989, p. 421).

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B
Retailing

[17]

Excerpt from Paul Nystrom, *The Economics of Retailing*, 70–100.

CHAPTER IV

THE DEVELOPMENT OF RETAILING IN AMERICA

There have been at least five well-defined stages in the development of retail trade in America, as follows:

1 Prehistoric Indian trade.
2 The trading post period.
3 The general merchandise store era.
4 The period of rise and development of single-line independent specialty stores.
5 The modern period of growth of large-scale retailing involving extensive capital in such institutions as department stores, mail order houses, and chain stores.

These five stages have characterized the history of retail trade in practically all sections of the country. They were not, however, represented everywhere at the same periods of time. For example, the primitive trade of the Indians among themselves gave way gradually during the sixteenth and seventeenth centuries to trade with the whites at the trading posts. In the eastern section of the United States, trading posts began to be displaced by general merchandise stores during the eighteenth century. In the Middle West they continued until 1820 or even later, and in the Far West down to 1840. Indeed, trading posts are still to be found in isolated sections of North America, particularly in northwestern Canada and Alaska.

Specialty or one-line stores began to displace the general merchandise stores in the larger cities of the eastern part of the country during the years from 1800 to 1825. This change spread gradually to other sections and is continuing down to the present time. The general store still continues in many small communities, although its character has greatly changed during

the past twenty-five years. Large-scale retailing in department stores, chains, and mail order houses made its beginnings in the larger cities in the 1860's and 1870's, gradually replacing old-time general merchandise stores and even specialty stores. This movement is still at the height of its progress.

Prehistoric Indian Trade.—Prior to the coming of white men, America was populated by numerous tribes of Indians with varying degrees of culture and economic development. There are ample evidences of an extensive trade conducted within tribes and by certain tribes with others. It may be presumed that the extent of such intertribal trade depended to a very large extent upon the degree of economic advancement of the various tribes. The most progressive tribes, undoubtedly, enjoyed the greatest trade.

There were some Indians who were literally savages, who knew very few human arts and practiced these few in the crudest way, and therefore neither knew nor cared for the products of other tribes. If they wanted them they were not able to offer anything in exchange for them. They represented the lowest degrees of culture. On the other hand, there were tribes who cultivated the soil and raised corn and other products, in addition to hunting and fishing. Some had even begun the domestication of wild animals, particularly dogs, which they used as aids in hunting and as beasts of burden. These tribes had advanced considerably beyond the fishing and hunting culture stage and enjoyed an important trade with other tribes.

The commodities of commerce in the intertribal trade among the North American Indians consisted largely of foodstuffs, such as fresh and dried fish, dried meat, corn, furs, skins of wild animals such as buffalo and deer, articles of personal adornment such as eagles' feathers, bears' teeth, paint materials, beads, basketry, earthenware, pipes, stone arrowheads, and other implements. It is quite certain that Indians living near waters teeming with fish disposed of their surplus to other

tribes living inland. Indians living near salt marshes and salt springs bartered salt for other commodities. Quite probably, individual Indians, skilled in the craft of making stone arrow-heads, stone axes, and birch bark or dug-out canoes, made these goods for others and received other commodities such as foods, skins, and ornaments in return for the products of their skill.

Only the existence of an extensive system of trade can account for the wide distribution over the American continent of such goods as copper implements, vermilion, and other paint pigments, eagle feathers, and wampum made of shells which must have come either from the Pacific or the Atlantic Oceans. Copper such as could only have come from the Lake Superior region was found among Indians scattered as widely as the Atlantic Coast and the Gulf of Mexico. Mica such as probably came from North Carolina has been found in the Indian mounds in Ohio. Pipe stone, of the kind used in making the Indian smoking pipes found among most tribes all over North America, must have come from the Minnesota and South Dakota areas where the only known deposits of this mineral are located. Eagle feathers, widely used in head-dresses of chiefs and braves, could only have come from those sections of the country that were the habitat of the eagle. Wampum shells, as has already been indicated,. must have been carried inland from either the Pacific or Atlantic Oceans, probably from both. Copper bells and other objects found in the ruins of Indian villages in New Mexico, Arizona, and Colorado are believed to have come from the Aztecs in Mexico.

This primitive trade was conducted by means of an extensive system of Indian highways or trails, which extended for hundreds of miles over mountains and valleys. Many of these old Indian trails have since become the thoroughfares of the white man along which railway trains and automobiles now hurry. The rivers and lakes were likewise natural roads for the Indian canoes.

Apparently there was no established system of middlemen

among primitive Indians. So far as is known, there were no retailers nor wholesalers, as such. Individuals or tribes with a surplus of dried fish or of buffalo skins dealt directly with other individuals or tribes in need of these commodities. Systematic, specialized distribution began with the arrival of white traders from Europe.

Trade in America Under the White Race.—Retail trade in America from its earliest stages down to the present has recapitulated to a large extent the development of retail trade in European countries from its earliest beginnings. In view of the primitive conditions in America at the time of its discovery and early settlement, it was not possible to transplant at once the systems of distribution of goods that prevailed in European countries. Parallel systems and developments came much later.

The first American trade carried on by the whites was with the Indians. The first retailing in America was conducted by itinerant traders from ships or canoes. The first retail institutions were trading posts at which commodities from Europe were bartered for furs, fish, venison, drug products, and other similar goods supplied by the Indians.

The Trading Post Stage.—The trading posts of pioneer America were much like the trading posts of the ancient Phoenicians and the late ancient Greeks along the shores of the Mediterranean. Adventuresome traders first made their voyages of discovery by water or by land, bartering as they went and hoping to profit from their expeditions. Later such traders made regular periodical visits encouraging the development of markets at which exchanges could be made. This stage was followed by the establishment of permanent trading posts with small colonies of traders and their assistants. Such was the origin of the Phoenician settlements in Sicily, Italy, Carthage, and Spain, and such was the origin of many of the early settlements on the frontier in America.

Among these early trading posts that afterwards became

important commercial cities were New Amsterdam (New York), Albany, Detroit, Chicago, Green Bay, St. Louis, Mackinaw, Astoria, St. Paul, and Des Moines.

The early explorers were nearly all commercial traders who came to exploit the fur trade of America. The difficulties of the French and the English nations during the seventeenth and early eighteenth centuries were primarily due to competition for the American Indian fur trade. The trader preceded the settler in all parts of the country. Trading posts were located at the head-waters of navigable streams, at portages, and at intersections of Indian trails long before there was any thought of utilization of the land for settlement, for grazing or agriculture. Radisson, LaSalle, Cadillac, Laclede, Langlade, Du Luth, were famous names among the French traders in America during these early years. Missionaries frequently followed the traders and helped to keep peace and to some extent to keep down the rapacity of traders who in some cases exploited the Indian trade to the fullest extent. Many of the missionaries combined trade with their religious calling. Among these were Fathers Joliet and Hennepin.

The earliest trade with the Indians seems to have been carried on under the fiction of the exchange of presents, just as had been the case in the earliest stages of trade in Europe and Asia. Traders appeared among the Indians offering hatchets, knives, awls, needles, looking glasses, bells, necklaces, bracelets, combs, beads, and bright paints which were ostensibly offered as presents. In return the Indians brought in skins of fur-bearing animals, particularly beaver, which was very much in demand in Europe during the seventeenth and eighteenth centuries. Later, the superfluous forms of present-giving gave way to actual barter and exchange on a bargaining basis. While there had always been, as has been indicated, a certain amount of trade among the Indians, the Europeans opened up outlets for furs and other products to such an extent as had been hitherto unknown. While the

Indians knew something about barter, they were certainly not a match for the early French, English, and Dutch traders who generally took advantage of their opportunities with the utmost ruthlessness. In time they developed a degree of sophistication. Under the competition of the French and the English traders, toward the opening of the nineteenth century, many were able to get more nearly what their furs and other products were worth. In the latter part of the trading post era, the Indians themselves, particularly the half-breeds, took up trading with the Indians with considerable success.

Both French and English companies established trading posts throughout the middle and western part of the American continent. These posts were scattered from the Atlantic to the Pacific and from the Arctic Ocean to the Gulf of Mexico. The French preceded the English in the Great Lakes region and in Canada, but the English sought to make up for their earlier delays by aggressive action and through the establishments of great trading companies such as the Hudson Bay Company, formed in 1670, and the Northwest Company, formed in 1783.

Shortly after the Revolutionary War, American business men became interested in the fur trade and sought to eliminate both French and English traders from the territory belonging to the United States. Benjamin Franklin, among others, was a strong supporter of steps to secure this trade. No other single fact was more important in influencing the declaration of the War of 1812 than the bitter rivalry of the American and English traders in the Great Lakes region.

Under the protection of the American government, and in fact with the government's cooperation and participation in many ways, the American Fur Company, owned by John Jacob Astor, established a preeminence in the Northwestern states extending to the Pacific Coast. The Lewis and Clark expedition was undertaken by the government as a means of opening up the Northwestern territory to American fur traders.

Indian trading posts on the Atlantic seaboard gave way to colonies of white settlements during the latter part of the seventeenth and early eighteenth centuries. Although the westward movement of settlers into the interior of America did not begin on a large scale until after the Revolutionary War, it continued well into the latter half of the nineteenth century.

Figure 10. The Pack Peddler—showing a popular method of retailing during early American history

Reproduced by permission from "Hawkers and Walkers in Early America," by R. Wright: J. B. Lippincott Co.

The effect of westward settlement, so far as trade was concerned, was to turn stores at Indian trading posts into general merchandise stores serving white colonists and settlers instead of Indians. The managers of the trading posts often remained in charge of the general merchandise stores. Many of these early general merchandise store owners in the Northwestern territory of the country were either French or French Canadians. A few were part Indian. Throughout the entire Middle

West there was also a strong sprinkling of Scotch-Irish whose adventuresome and ambitious spirits had carried them over the Appalachian Mountains into the Mississippi Valley even before the Revolutionary War. Many trading posts and, later, general merchandise stores, were conducted by these hardy pioneers.

The Yankee Peddler.—With the opening up of white settlements in the western wilderness there came the New England Yankee who traded with both whites and Indians but who specialized in trade with the whites.

Numerous small industries had sprung up in New England producing so-called "Yankee notions," including such articles as pins, needles, hooks and eyes, scissors, razors, buttons, tinware, clocks. These commodities were more in demand in the new white settlements than among the Indians. Such goods were generally sold, at first, directly to consumers by peddlers, most of whom came from New England carrying their packs or tin trunks on their backs. Others came on horseback and, as the roads were opened up, with wagons drawn by two, four, or even six horses. The early nineteenth century peddlers' assortments included not only "Yankee notions" but also dry goods, hats, groceries, salt fish, firearms, ammunition, tools, patent medicines, horse liniment, spectacles, hardware, and even furniture.

Figure 11. The Basket Peddler and His Cart

Reproduced by permission from "Hawkers and Walkers in Early America," by R. Wright: J. B. Lippincott Co.

The early peddlers were a wild lot, shrewd, dissolute, and famed for their trading ability. While criticized for their dis-

honesty just as the Phoenicians had been criticized 2,500 years before, their frequent periodical visits to the early settlements were looked forward to with keenest interest by both housewives and menfolk. Many of these itinerant peddlers later settled down as general merchants. Some stores still in existence in the Middle West of the United States trace their origin to Yankee peddlers of the early nineteenth century. General merchandise stores already established also added stocks of the items sold by peddlers to their regular lines and as time went on supplemented these stocks by additions of cotton and woolen fabrics, laces, pottery, glassware, house furnishings, clothing, shoes, spices, and a growing list of groceries.

The Jewish Traders.—The rapid development of the Middle West, rich with possibilities, attracted the attention not only of the people of the seaboard states but also of great masses of Europeans in England and Scotland, Ireland, and Germany. During the 1830's and 1840's, a flood of immigration came into the United States from these countries. It brought with it into the retail trade of the country a new element that was destined to become very important, namely, the German Jew. The German Jewish immigration formed a part of that stream of people who, under the oppression of illiberal governments at home and welcomed by opportunities in the New World, came to the United States during the early nineteenth century. Many of them immediately went into trade and commerce in the larger cities, others, equipped with peddler's packs, started into the regions of new settlements as the Yankee peddlers of the preceding years had done. Some even brought their packs of merchandise with them from Germany and Austria. Like the Yankee peddlers before them, several of these newcomers, in time, established themselves as general store merchants. The institutions which they started are now important factors in the retail distribution of goods in the United States, particularly in dry goods and apparel lines. Among the leading insti-

tutions with a beginning such as just described was that established by Adam Gimbel, founder of Gimbel Brothers, who began as a peddler with a pack on his back. His first place of business was a general merchandise store at Vincennes, Indiana. Later this was moved to Milwaukee where the store then

Figure 12. A New Orleans Sock Seller in the 1860's
From "Encyclopedia of Commercial Anecdotes."

started still remains. The Gimbel organization has since spread to several cities so that it now includes an extensive chain of modern department stores.

General Merchandise Stores.—The general merchandise store was the most characteristic retail institution during the transition period from pioneer life down to full-fledged eco-

nomic development and maturity. The general merchandise store remained the most common and the greatest outlet for goods to consumers even down to the twentieth century. It supplied practically all of the simple requirements of the early settlers, and as their incomes and prosperity grew the general merchandise stores also expanded to supply their needs up to recent years.

The general merchandise store is the common or prevailing type of retail institution wherever there are pioneer conditions. It has not only been an important factor in American development, but it has also been the chief retail outlet in other new countries such as Canada, Argentina, Australia, and South Africa. It is the ideal type of store for new settlements and communities on the way toward more highly developed economic life.

The old-time general merchandise store supplied its customers with dry goods like cotton, woolen and linen yard goods, notions, sewing supplies, handkerchiefs, skeins of cotton, wool and silk yarns, buttons, ribbons, and laces. Such stores also handled the common groceries including flour, sugar, tea, coffee, molasses, salt, spices, tobacco, vinegar and, in the early days at least, wine, beer, whisky and rum. It also dealt in hardware including the ordinary tools, nails, screws, hinges, locks, latches, axes, scythes, fish hooks, firearms, and ammunition. Finally, it provided such drugs and medicines as were in common use during the early and middle parts of the nineteenth century, including many which have since completely passed out of use. On the old order sheets and inventory lists one may find items such as Church's Cough Drops, Turlington's Balsam of Life, Bateman's Drops, British Oil, Steer's Opodildoc, Hill's Balsam of Honey, Godfrey's Cordial, essence of peppermint, Lee's New London Bilious Pills, Anderson's Pills, Hooper's Female Pills, Liquid True Blue, Maccaboy and Cephalick Snuff, Chemical Fire Boxes, stationery, blank books of various sizes, children's spelling books, common writing and

letter papers, Dutch quills, sealing wax, wafers, thumb lancets, spring lancets, gum lancets, green goggles, Bibles, and song books.

The general merchandise store in its early stages was usually a wooden structure with a high rectangular front, dingy little windows, rough counters and shelving. Indeed, in the early part of the nineteenth century in many general merchandise stores there were no fixtures at all. Many of these early stores kept their stocks of merchandise, including dry goods, notions, groceries, and liquors, in a locked box or chest which was opened and goods shown only when customers called. Later, shelves and counters came into use and boxes and barrels were piled up on the outside of the store. Salt, which always constituted an important item in sales of general merchandise stores in country districts was bought and sold by the barrel, and barrels of salt were generally stored on the outside under a shed or lean-to attached to the building.

The general merchandise store usually engaged in a general trading business. In many communities barter with the Indians continued at the same time that trade grew with white settlers. Money of any kind was very scarce and sales for cash were the exception rather than the rule. As had been the case in the old trading posts, all sorts of products were taken in trade, including furs, venison and other wild game, hides, meat, pork, dairy products, grain, lumber, hoop poles and staves for barrels, firewood, wild berries, maple sugar and ginseng, a root found wild in America which was dug, cleaned, dried, and shipped to China.

Long-term credits were customary in the general merchandise trade in all parts of the country. During most of the nineteenth century settlements on accounts were usually made annually. In some sections this period was shortened to six months before the opening of the twentieth century. It is difficult to see how the early pioneers could have managed

without the long-term credit accommodation given to them by these retail stores.

The general merchandise store was usually the location of the village post office. Often the store was run in connection with a tavern or inn supplying meals and lodgings to travelers. In many cases the general store merchant also ran a nearby farm and the business of the store was carried on by the wife and children while the men of the family performed the farm-work. The general store keeper was also very frequently the local justice of the peace or public notary.

For several generations in American life, the general merchandise store served as the village social center for the men. The old box stove, the rickety chair or two, the flour barrel and the sawdust spit box were the almost universal furnishings that equipped it for its social services. Here politics, religion, and neighbors were discussed. It may not be too much to say that here the tariff question, government bank, internal improvements, foreign policies, and other important national matters were ultimately settled. American statesmen for many years had to reckon with the force of public opinion generated and cultivated around the stove of the country store. With all its inefficiency, its wasteful methods, and its shortcomings as a retail establishment, it must be said that it successfully served its day as probably no other type of institution could. Many general stores still exist and will for years to come, but with increasing density of population and rising standards of living the general store as such is giving way to other types of retail institutions.

General Merchants Bought Their Goods in the East.— In the early and middle periods of the nineteenth century, the general merchandise stores east of the Mississippi River got most of their goods from New York, Philadelphia, and Baltimore. Prior to the coming of the railroads, goods were transported by wagons and the roads leading westward in the 1820's

were often crowded with vans carrying merchandise for western stores. Much of the fabrics and other dry goods as well as hardware, tools, cutlery, and firearms were imported from abroad. Groceries consisted for the most part of salt, brown sugar, rice, bohea tea, and salted, pickled, or dried fish brought from the seaboard. Flour was produced in many local mills scattered throughout the entire country, from wheat raised near at home. Soap and candles were usually made at home but toilet and shaving soaps and perfumes were bought at the stores.

In order to obtain supplies, the general store merchant usually went east on a buying trip once a year. As late as 1825, nearly every retailer in the United States visited the eastern seaboard markets for goods only once a year. Toward the middle of the nineteenth century it began to be the custom for the better merchants to go twice a year. This trade from inland flowed to Boston, New York, Philadelphia, and Baltimore, but during the early decades of the nineteenth century New York, because of its advantageous location, began to gain in prestige and volume of business over Boston and other ports. By the middle of the nineteenth century it had gained a position of preeminence over them all. New Orleans was similarly the wholesale market for the southern part of the Mississippi Valley and the Southwest.

European Dumping on American Market and Auction System.—Following the War of 1812-1814, goods from Europe, particularly from England, were dumped into the New York market in large quantities. To effect prompt sales these goods were generally auctioned to any one who would buy them, to the great discomfiture and dissatisfaction of the numerous importing houses then located in New York. Country general merchants crowded these auction sales and in many cases overbought, so that the system not only hurt the importers but many of their customers as well. The goods included

in these sales were such as Yorkshire cloth, Scotch muslins, plushes, taffetas, jackonettes, blankets, bed covers, and a great variety of hardware, tools, novelties, and notions.

Auction selling of imported goods continued for several years following 1814. As a consequence, many auction firms came into existence and many of the old importers and jobbers were ruined. The practice of dumping foreign goods in the American market and of selling them for what they would bring by auction aroused a great deal of enmity toward foreign goods, not only among American manufacturers but also among American merchants as well. This feeling crystallized into a demand for protective tariffs which later became a regular part of American commercial policy.

Specialty and Single-Line Stores.—Specialty shops and stores handling but a limited line of goods began to appear in the larger eastern American cities very early in the history of the country and followed gradually throughout the nineteenth century in the medium-sized and smaller communities of the country. The specialty stores established in American cities were much of the same type and pattern as the small shops found in England and other countries in Europe then making up the most important channels of distribution to consumers for most goods. The one-line store came into existence largely because of the inability of the general merchandise stores to meet the requirements of their respective communities for specialized services such as could be given by apothecaries, milliners, dressmakers, hardware dealers, cabinet makers, and so on. The general merchandise stores and specialty stores, however, continued to get along together and for many years were the principal outlets for goods of all classes to consumers.

Large-Scale Retailing.—Shortly after the middle of the nineteenth century there were simultaneous beginnings of several new types of retail institutions which in our time have come to occupy a very important place in the retail distribution

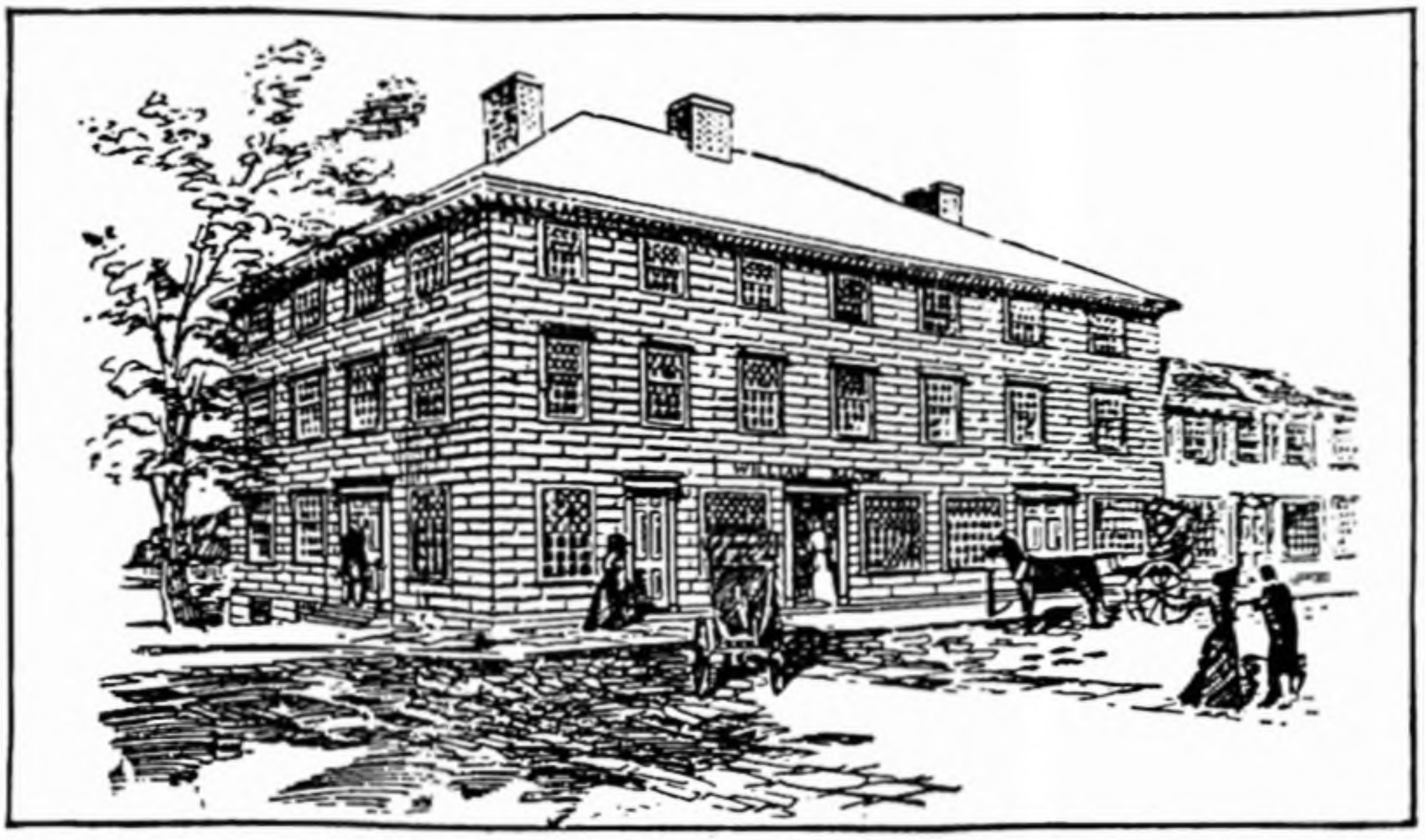

Figure 13. The Oldest Dry Goods Store in Boston, at Washington and Ruggles Streets, Established in 1814
From "Old Boston Post Road," by Stephen Jenkins.

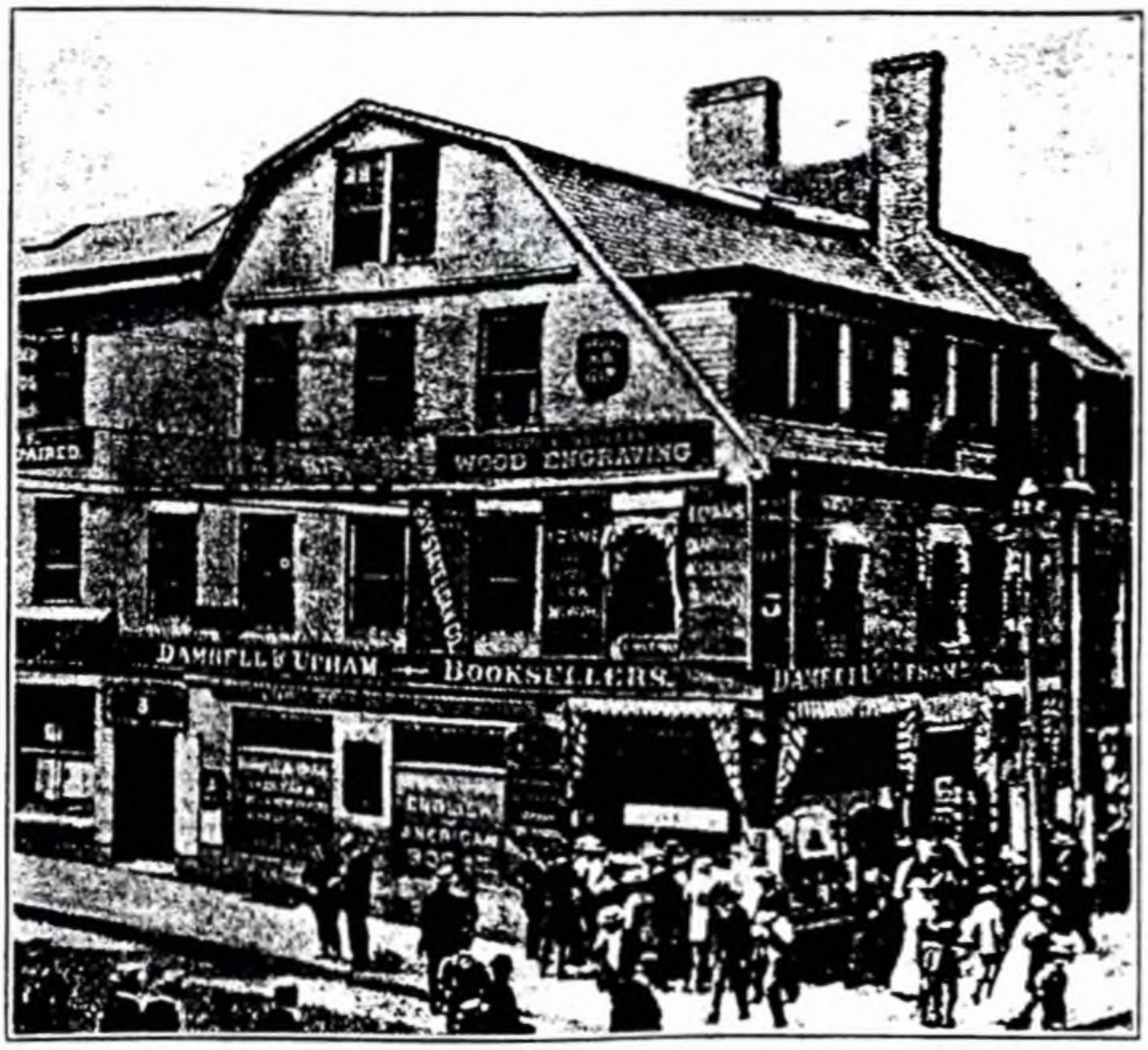

Figure 14. Old Corner Book Store, Boston, Established in the Early Nineteenth Century (Photograph taken in 1895)
From "Old Boston Post Road," by Stephen Jenkins.

of goods. Among these were the department stores, the mail order houses, and the chain stores. The origins and development of these institutions will be traced in following chapters.

Changes in Activities of American Merchants.—At the close of the Revolutionary War and for many years following, retailing occupied a minor place in the minds of men of affairs. Many prominent business men of the times began their careers

Figure 15. The Wm. Sherman & Co. Dry Goods Store, Newport, R. I.
Established in 1796 as a dry goods and crockery store. Building was in continuous use down to 1911. Photographed in 1881. This cut was reproduced from a photograph courteously supplied by Mrs. A. K. Sherman.

in the retail business or as retailers' apprentices but branched out into other lines of business that offered greater prospects for business genius. In some cases, the retail business contacts were maintained, in others they were given up. In the early years of the Republic, young men trained in business branched out and expanded into shipping and importing. Others went into banking.

Typical of the development of merchandising in New England, Amos Lawrence and his brothers served their apprenticeships in retailing and for many years, during the early part

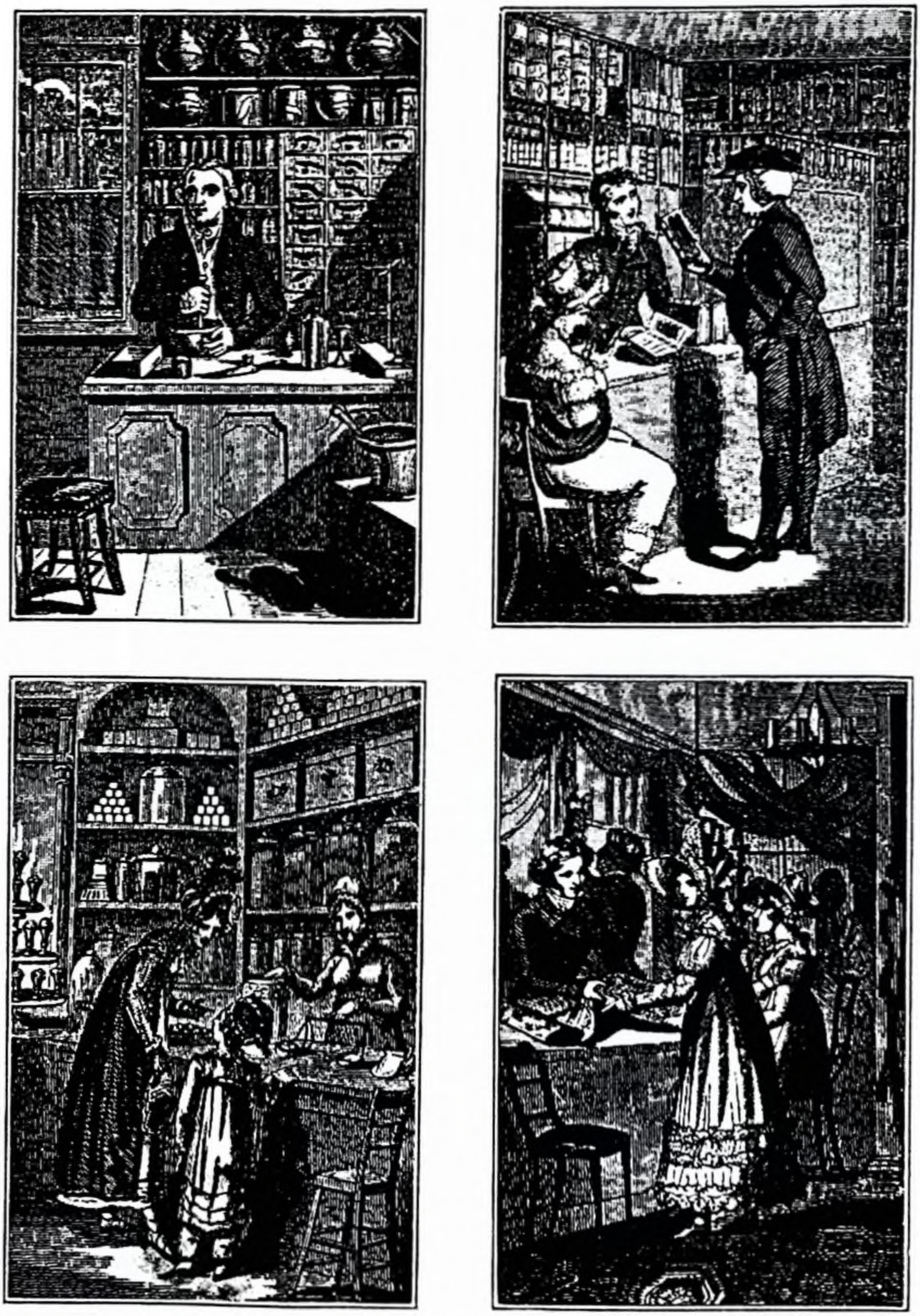

Figure 16. Interesting Views of Retail Shop Interiors of the Period of 1835

of the nineteenth century, conducted a dry goods business in Boston, but their activities expanded in the ownership and operation of a number of fast-sailing American ships engaged in maritime commerce. Other members of the family very early entered into the cotton manufacturing industry with which the name of Lawrence has since been closely associated.

In Philadelphia, Stephen Girard began his business career in the retailing business but expanded into the ownership and management of ocean shipping and later into Philadelphia banking and real estate.

John Jacob Astor, an immigrant from Germany, served his apprenticeship in a New York fur establishment from which he finally withdrew and went into the business for himself. In the years following he developed a wholesale and export fur business of the largest proportions. He, too, engaged in ship-owning and ocean trade, particularly with China.

George Peabody was a native of New England, who made his beginning in the retail business in Georgetown, Maryland, and later engaged in wholesale trade in Baltimore, developed into international banking, and during the 1840's and 1850's became one of the leading financial figures, so far as American finance and trade were concerned, in London.

During the second quarter of the nineteenth century and for fifty years thereafter, retailers who succeeded sought outlets for their ambitions and energies in wholesaling. There was hardly a big retail organization in any part of the United States between the years 1835 and 1900 that did not have a wholesale department or, indeed, in which the retail store did not become merely a department of the wholesale business.

Well-known retail concerns whose origins go back to the middle of the nineteenth century, or before that, nearly all had wholesale connections. Arnold, Constable & Company, Lord & Taylor, and A. T. Stewart, in New York; John Wanamaker and Strawbridge & Clothier in Philadelphia; Jordan Marsh &

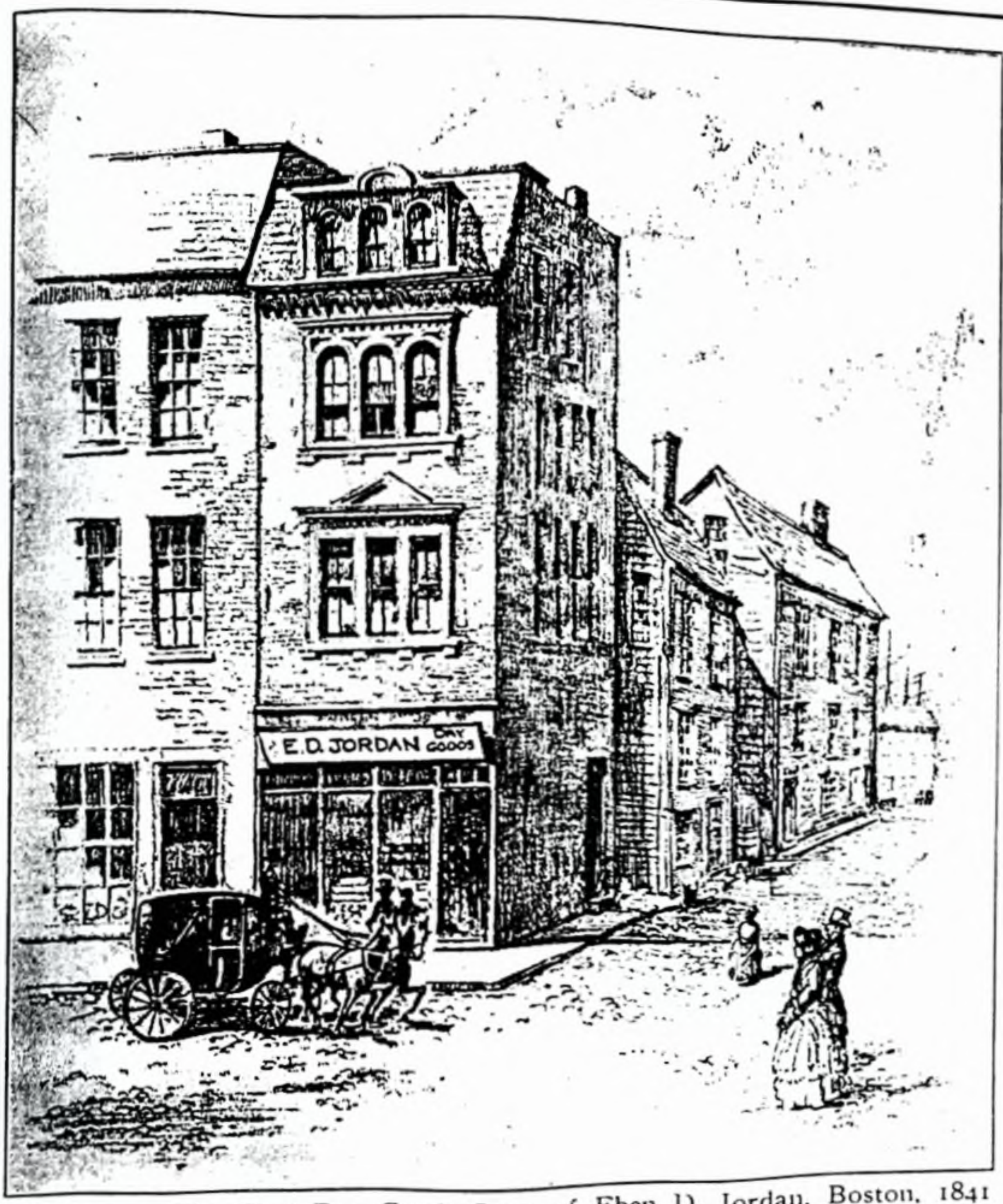

Figure 17. The First Dry Goods Store of Eben D. Jordan, Boston, 1841

From "Retail and Romance," a pamphlet by Julia Houston Railey, published at the time of celebration of its Diamond Jubilee, January, 1926, by Jordan Marsh Company.

Company in Boston; Marshall Field & Company and Carson, Pirie, Scott & Company in Chicago, to name but a few, conducted flourishing wholesale businesses during the middle and latter part of the nineteenth century. In the case of the two Chicago concerns named, these have continued down to the present.

With the arrival of the large department stores, the mail order houses and the chain store systems, the retail business offered opportunities for expansion and for the exercise of greater organizing and managing abilities than had hitherto been known. Instead of retailers in these types of businesses going into shipping, importing, banking, wholesaling, or manufacturing as they formerly had done, their energies have been completely absorbed in the opportunities for expansion within the retail business. During recent years there has been a considerable movement of importers, bankers, wholesalers, and manufacturers into retailing.

Changes in Wholesaling.—Prior to 1860, as indicated in a preceding section, retailers throughout the country replenished their merchandise stocks by annual or semi-annual trips to wholesale market centers. During most of the nineteenth century, Boston served as the wholesale center for the New England trade; New York City for the retail trade in New York State, northern Ohio, Indiana, and Michigan; Philadelphia served Pennsylvania, much of the Ohio Valley, and even St. Louis; Baltimore came to be the leading wholesale distributing point for the southeastern states as far west as Alabama and Mississippi; New Orleans was the wholesale distributing center for the Mississippi Valley as far northward as the mouth of the Ohio, including western Tennessee and Kentucky, Arkansas, and Louisiana. Cincinnati and Chicago began to be wholesale distributing points in the 1840's and 1850's. St. Louis, which had been the center of the early fur trade extending over the entire Missouri Valley, began to be

an outfitting place for retailers very early in the nineteenth century.

When the Civil War opened in 1861, many of the trading channels were perforce changed considerably. Baltimore lost its southern trade although it was able to regain a large part of it after the war. The Philadelphia trade was seriously hit along the border states. New York trade with the West grew tremendously.

Traveling salesmen had been employed to some extent during the 1850's, but during the Civil War period the New York importing and wholesale houses began to send out traveling salesmen on a large scale. This practice grew very rapidly in the 1860's. In the development of the West following the Civil War, through the later 1860's and 1870's, the system of selling goods through traveling salesmen became a fixed institution. In the meantime periodical trips to market by general store merchants declined.

During the 1870's and 1880's, the department stores began to be important in the larger cities. These stores from the start sent their buyers to market to buy some part of their stocks directly from manufacturers. Instead of semi-annual trips, however, the department store buyers, particularly of the ready-to-wear departments, made even more frequent visits, as often as once in every two or three months and later as often as once a month. The early department stores continued to purchase many of their goods directly from wholesalers and through traveling salesmen, but during the past fifty years the volume of purchases made from traveling salesmen and from wholesalers has steadily declined. It has been a consistent department store policy to buy more and more of its goods directly from producers and to have its buyers ransack the markets for suitable goods at the lowest possible prices.

Buying from Traveling Salesmen.—The earliest traveling representatives of wholesalers and importers were credit men or

representatives of credit departments. The panic of 1837 taught American business men caution. Following this business crash, credit men began to visit retail customers periodically, to learn how they were getting along, to collect money due, to extract settlements from delinquents, and to make friends for the wholesale or importing house among those not already customers. This method naturally proved expensive and could only be considered as an emergency arrangement. Gradually these commercial travelers whose early function it was to secure payment for goods already bought began to take orders for goods for future shipment as part of their regular duties.

Founding of Dun's and Bradstreet's.—In the meantime other sources of information on the credit standing of retailers were devised. Shortly after the panic of 1837, a Mr. Church established a bureau of credit information in New York whose purpose it was to serve wholesalers who desired information concerning out-of-town merchants buying from them. About 1840, the first mercantile reference book was issued. The first mercantile agency was established in 1841 by Lewis Tappan in New York. A second was established in 1842 under the name of Woodward and Dusenbury. The Bradstreet Company was founded in 1849 by J. M. Bradstreet, who, as a traveling representative previous to 1849, had collected a great deal of information about his own customers. Later the firm of R. G. Dun and Company came into existence, taking over the business built up by Lewis Tappan. Other concerns entered the field and for years the competition was keen, but the two last-named are now practically alone in the field of general mercantile agencies. To a certain extent special industries are represented by special credit-reporting agencies.

The Mercantile Agency.—The mercantile agency is a purely American institution. No country in Europe has any-

thing like it. In England, banks furnish their customers with information concerning the standing of parties in trade, but in this country the development of this function among the early banks was next to impossible. In the first place, the banks were in too precarious conditions themselves. They were failing and suspending specie payments on every hand. Consequently the banks were subject to great suspicion at the times when the need for mercantile credit information was strongest, namely, during and after the panics of 1837, 1843, and 1857. The country had grown so rapidly in trade, and particularly in the extent of territory over which this trade was transacted, that the small banks of the wholesale centers of the time had neither the incentive nor the ability to keep track of commercial conditions in such a way as to be of real service to the commercial interests of the country.

Another reason why the banks of this country did not develop the credit information function for their wholesalers, was that there was no central bank through which such information could be collected for the whole country and transmitted to the places where it was needed. Thus the mercantile agencies came into successful existence.

Opposition to Agency Methods.—Naturally there was considerable opposition to the methods of the mercantile agencies. It was considered an imposition by many retailers to have a third and outside party prying into their business affairs. Every attempt to get information directly by these concerns was opposed by large numbers of business men. Magazine and newspaper articles were written against the system. Even as late as 1896 a book appeared, violently opposing the agencies, entitled "The Mercantile Agencies Against Commerce: Are We a Nation of Swindlers and Liars?", written by W. Y. Chinn. This spirit has now largely passed away. Antagonism toward the agencies has been largely replaced by confidence. Most merchants today furnish the mercantile agencies with

signed statements showing the exact condition of their respective businesses.[1]

The Drummer Becomes a Salesman.—There was another type of employee in the early wholesale and importing houses, known as the "drummer," whose work finally developed into traveling salesmanship. The drummer, at first, was employed to hang around hotels and watch for the arrival of retail merchants from out of town. When a merchant arrived he became the special recipient of every kind of appeal to get him to come to the house represented by the drummer. "The country merchant is booked on his arrival, is captivated by courtesy, is attracted by appeals to each of his appetites and passions, is coaxed, decoyed, and finally ensnared or captured." [2]

Later, as competition among the wholesalers grew keener, the drummer was sent out to see retailers in their home towns, to get their promise to come to the house when in the market, and to take orders whenever possible. As the practice of small-town merchants going to market declined, the work of selling to the retailer in his own store or home became more and more important. Today, a very large part of the purchases of general and specialty stores are made through the medium of traveling salesmen.

As early as 1860, a number of traveling salesmen were employed by wholesale houses in New York, Chicago, Cincinnati, and other jobbing centers.[3] After the Civil War their number increased very rapidly. Chicago wholesale houses sent their representatives out over the western prairies, beyond the terminals of railroad and steamboat navigation. Traveling salesmen, with their trunks loaded on wagons, followed the pioneer trails to mining camps, lumber camps, trading posts, and everywhere that a store existed. Some of them, before rail-

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[1] P. R. Earling, Whom to Trust, pp. 295-304; J. Boulter, "Mercantile Agencies and Their Work," in Trade and Commerce, pp. 372-394; E. D. Masterson, The Mercantile Agency, in *Modern Merchandising,* Vol. VI, pp. 87-92; *Bankers' Magazine* (1858), 12:545; *Hunt's Merchants' Magazine* (1851) 24:46.

[2] E. T. Freedley, United States Mercantile Guide (1856), p. 204.

[3] *Bankers' Magazine,* 12:545 ff.; Briggs, Fifty Years on the Road, Ch. II; M. M. Yeakle, St. Louis of Today, p. 315.

roads were built, drove wagons loaded with trunks of samples across the mountains to Utah and even to the Pacific Coast. Chicago's supremacy over St. Louis as a wholesale center was largely due to this early hustling. The eastern drummer in the Northwest was declared to be a thing of the past in a statement made in the *Chicago Tribune* Annual Review of Trade and Commerce in 1869.

Rise of Advertising.—The use of extensive newspaper advertising by retail stores began in the United States about the middle of the nineteenth century. The first full-page advertisement however did not appear until 1879. This advertisement was placed by John Wanamaker in Philadelphia on the event of the return of General U. S. Grant from his trip around the world. Not until several years later, however, did the practice of using full-page advertising become common.

Daily newspapers in most cities also date the beginning of the growth of their influence and power to this same period. Probably the department stores of the country could never have become important in retail distribution were it not for the help given by newspaper advertising. Similarly the newspapers could never have reached their present development were it not for the patronage of retail store advertising, but more particularly the department store advertising. No class of retailers has exploited newspaper advertising to the extent that the department stores have.

Rise in Use of Branded Goods.—The rise in the use of advertising in both newspapers and magazines carried with it a very rapid development of promotion and sales of branded goods. Dry goods, clothing, groceries, drugs, and hardware were fields in which trade names were extensively adopted and promoted. Retailers' and wholesalers' stocks began to be much more complicated than they had been hitherto because of the multiplicity of brands.

The Fight for Price Maintenance.—The introduction of a great many brands of goods widely advertised at various retail prices soon led to price-cutting of such goods as leaders or bait to induce consumer patronage. Violent controversies among retailers and between retailers and manufacturers began as early as the 1870's. The department stores were generally mentioned in these early controversies as the most aggressive price-cutters of branded goods. Later there began to be complaints against occasional individual specialty retailers such as druggists, variety stores, grocers, and hardware dealers, but the local character of trade of these small stores was such that most of the agitation for price maintenance was directed toward the control of the sale of branded goods in the department stores.

One of the chief purposes of the establishment of the early trade associations, such as of the wholesalers and retailers of drugs and groceries, was to curb price-cutting. Several plans were drawn up and tried out. Among these were the "Campion Plan" of the early '80's, named after a retail druggist in Philadelphia who suggested it, the "Tripartite Plan," and the "Coupon Plan." Most of these plans were continued in one form or another down to the 1900's, but were finally ended by adverse legislation and court decisions.

Other Retail Trade Policies.—The last half of the nineteenth century saw the effective introduction of several other new policies in retail trade, including movements for insuring accuracy and honesty in advertising, the wholesale employment of women as salespeople, the general adoption of the one-price policy, the discarding of bargaining and higgling with customers, the elimination of the barker or "puller-in" at the store entrance, the establishment of odd cent prices and, the gradual shortening of consumer credit from yearly to six months settlement periods, and then from six months down to thirty days settlement periods.

During the past twenty-five years, by a gradual process of education, a large proportion of the charge account business done by retail stores has been reduced to a thirty-day settlement basis. Since 1920, the rapid spread of instalment selling in many lines of consumer goods has again opened up the prob-

Figure 18. Interior of a Mid-Nineteenth Century Dry Goods Store

Note that the store was heated by means of a primitive coal stove and lighted by oil lamps.

lem of long credits. Not the least of the objections urged against instalment selling has come from the older credit men of retail stores who have spent a lifetime in developing short period settlements.

The last twenty-five years have definitely fixed the policy among American retailers that the store is for the consumer

and not the consumer for the store. Retail stores now generally work under the policy that the "consumer is always right," whereas formerly *caveat emptor* was the rule. Customers were urged, implored, or even forced to buy. Shopping in modern retail stores has been made a pleasure free from any sort of coercion. Goods are sold with unlimited guarantees and dis-

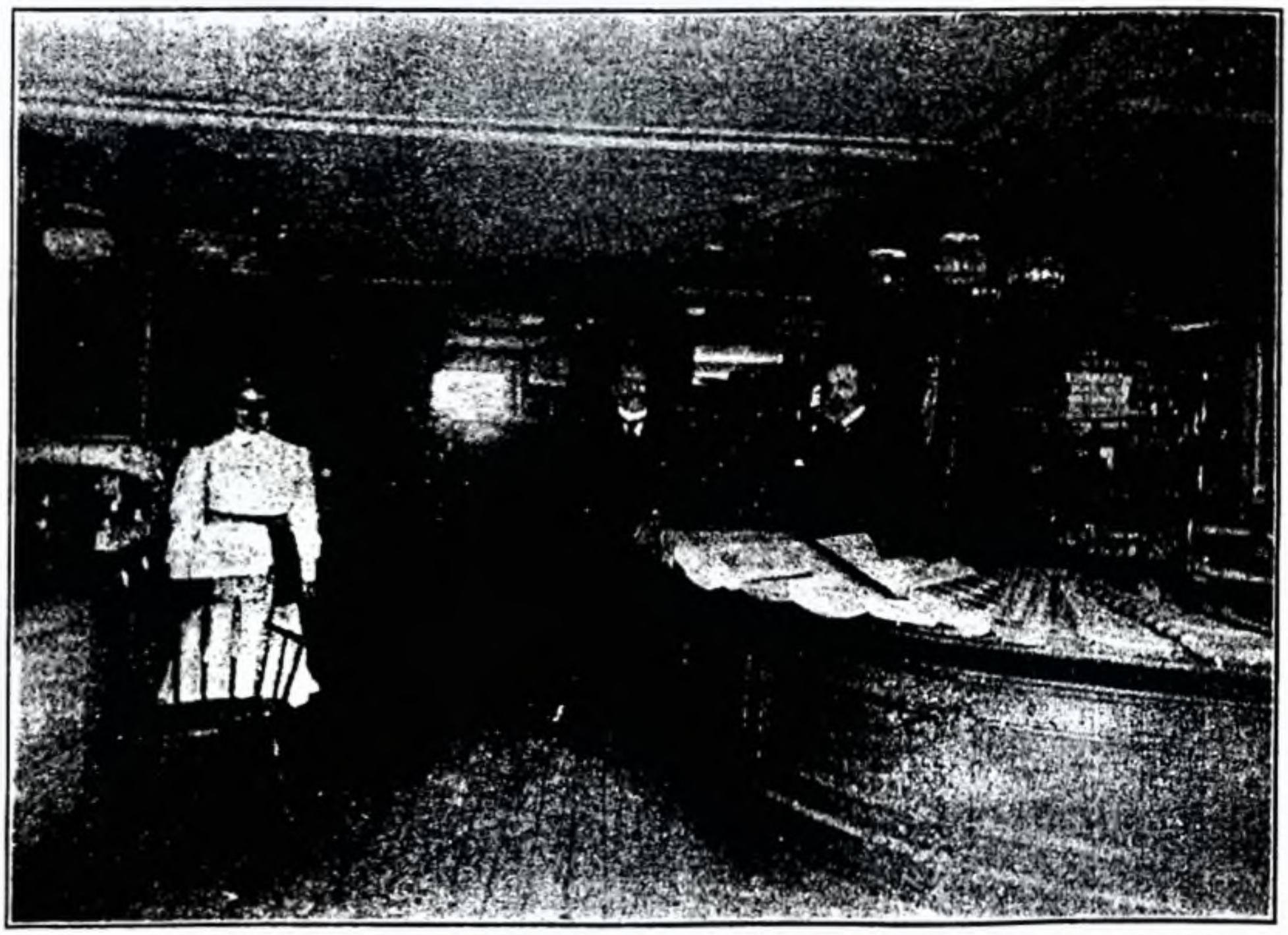

Figure 19. Interior of the Wm. Sherman & Co. Dry Goods Store in Newport, R. I., in 1906

Reproduced from a photograph courteously supplied by Mrs. A. K. Sherman.

satisfied customers can generally effect exchanges or get their money back on any basis of fairness.

Very great advances have been made in store planning, architecture, and layout. Early stores of all kinds were generally makeshift, box-shaped buildings with no special thought or planning for the specific requirements of retailing. Probably the first big retail store building to receive anything like scientific planning was the A. T. Stewart building at Ninth Street and Broadway, New York City, finished in 1863. This build-

ing still stands as a part of the New York John Wanamaker store. In the years following, retailers gradually worked away from the archaic Victorian types of store construction and developed a truly new and unique type of architecture. With the invention of elevators and the use of electricity for lighting, there began a period of store construction of the type found in modern department stores and even in specialty shops which will undoubtedly go down in the history of architecture as one of the most remarkable in business buildings.

In the matter of store operation, perhaps the most striking development during the past generation has been the creation and effective use of statistical control of merchandising by means of cost accounting, standardization of expenditures, and merchandise stock control.

From a merchandising standpoint, the outstanding movement during the past ten years has been the recognition of fashion as a factor in merchandising, the study of fashion movements, the employment of fashion specialists as assistants in merchandising, and the appeal to consumers by offers of fashion rather than the old-time offers of quality and price.

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[18]

Excerpt from James B. Jefferys and Derek Knee, *Retailing in Europe*, 24–48.

CHAPTER II

RETAIL ESTABLISHMENTS AND RETAIL SALES

THE number of retail establishments in the eighteen countries of Western Europe in 1955 amounted to just over 4 million. Included in this number are market stalls, itinerant retailers and pedlars as well as fixed shops. This total suggests that there was one retail establishment for every 72 inhabitants. The comparable figure for the United States of America in 1954 was one establishment for every 152 inhabitants.

So far as individual countries are concerned (Table VII) there would appear to be four groups. First comes Belgium, with some 34 inhabitants per retail establishment, then a group of six countries, France, Italy, the Netherlands, Luxembourg, Switzerland and Denmark, with between 57 and 73 inhabitants per establishment. Thirdly comes a group of seven countries, Sweden, Ireland, Germany, Greece, the United Kingdom, Portugal and Austria, with between 82 and 92 inhabitants per retail establishment. Finally come the countries with relatively few establishments in relation to the population, Norway, Spain, Finland and Iceland.

Of the total number of retail establishments in Europe about 15 per cent, or just over 600,000, were classed as itinerant retailers. The proportion of establishments classed as itinerant was highest in Italy (27 per cent), the Netherlands (24 per cent), Portugal (19·5 per cent), Greece (17·5 per cent), Germany (14 per cent), France

(13 per cent) and Spain (11·5 per cent). The proportion of such establishments was small in the Scandinavian countries and in Switzerland. The climate, the degree of

TABLE VII

ESTIMATED NUMBER OF RETAIL ESTABLISHMENTS, NUMBER OF INHABITANTS PER ESTABLISHMENT AND PER FIXED SHOP, BY COUNTRY, 1955

Country	Number of Establish-ments	Number of Inhabitants per :	
		Retail Establish-ment	Fixed Shop
Austria	76,000	92	96
Belgium	262,500	34	37
Denmark	61,000	73	n.a.
Finland	34,600	123	131
France	755,000	57	66
Germany *	622,400	84	98
Greece	100,000	84	101
Iceland	950	158	n.a.
Ireland	35,000	83	87
Italy	818,500	59	81
Luxembourg	5,150	60	70
Netherlands	166,000	65	86
Norway	35,300	97	102
Portugal	98,000	89	111
Spain	275,000	105	119
Sweden	89,000	82	86
Switzerland	70,900	70	71
United Kingdom	596,000	86	92
Western Europe	4,108,300	72	84

* Includes Saar and West Berlin.

urbanisation, the tradition of markets and fairs in the different countries all influence the degree of importance of itinerant retailing. In general, as the distribution structure in a country develops, so the pedlars, itinerant traders and market stalls give way to fixed shop retailing.

But in some countries, for example the Netherlands, and to some extent the United Kingdom, this trend is offset by door-to-door selling and home delivery, and in other countries also by what in effect are mobile shops, or shops on wheels.

If itinerant retailers are excluded from the analysis the number of inhabitants per fixed shop in Europe was about 84 in 1955. Further, when this analysis is extended to individual countries (Table VII), it will be noted that many of these countries which appeared to have relatively few inhabitants per establishment come much nearer the average when only fixed shops are taken into consideration. For example, France, 66 inhabitants per fixed shop, comes nearer to Switzerland, 71. In the Netherlands there were the same number of inhabitants per fixed shop, 86, as in Sweden, and in Italy the number of persons per fixed shop was 81.

Factors influencing the Number of Establishments

The factors influencing the number of retail establishments, or fixed shops, in relation to the population of a country are extremely complex. Just as there is no detectable correlation between the density of population in an area and its level of economic development and wealth, so there would seem to be little direct correlation between the density of population in an area and its number of retail establishments. In the countries of Western Europe there is, however, some tendency for the number of inhabitants per retail establishment to rise as the number of inhabitants per square kilometre of area falls. If, instead of studying the areas within national boundaries as a whole, one examines those regions within various countries which have attained a certain and rather similar level of urbanisation (in other words, leaving out the sparsely-populated areas of such countries as Finland, Sweden, Iceland, Spain, etc.,

which considerably reduce the national densities of population in these countries), then this tendency becomes somewhat more marked. But population densities are only one factor influencing the numbers of retail establishments. The combined influence of a number of other and often less tangible factors is probably more important.

These include factors inherent in retailing itself and, in particular, the extent to which the retailers regard themselves as specialists in a single trade or line of merchandise. The degree to which specialisation is carried tends to add to the number of establishments and the existence of specialisation is also influenced by the preferences of the consumers and the methods and scale of manufacture of the product. In France, for example, there are four times as many baker's shops per 1000 of the population as in the United Kingdom where factory baking, home delivery and the sale of bread in other food shops has reduced the number of bakers; there are also twice as many butcher's shops in France as in Great Britain in relation to the population.

There are factors connected with the structure of the local or national economy; in an area where opportunities for industrial employment of women are scarce, wives of industrial workers may open shops in their own homes to supplement their husband's income. This factor had an influence on the relatively large number of retail establishments in Belgium at the time of the 1947 Census, as did the influence of the business cycle, for in a period of unemployment the number of retail establishments tends to increase.

The degree of mobility of the population, i.e. the extent to which the population can and does move to new areas to work, has an influence at a given point of time on the number of establishments. For retailers, particularly small retailers, do not close down immediately there is a decline in trade. The existing shops remain open with less

customers while new ones are opened in the areas to which the population has migrated. This phenomenon was particularly noticeable in Great Britain in the 'thirties and after the Second World War, as population shifted southwards.

Regulations, local or national, also influence, directly or indirectly, the number of establishments. In some countries, for example Italy, there is a need to obtain a licence before a shop can be opened; in some, for example the Netherlands, a would-be retailer has to prove his professional qualifications for operating a retail establishment; and in others, for example Denmark, health regulations prevent certain lines of merchandise from being sold together in the same establishment, thus tending to increase the number of specialty shops in such lines. Further, in recent years town planning controls have influenced in many countries the number and types of retail establishment.

Lastly, there are factors connected with the purchasing habits of consumers. For example, there is the frequency of shopping (which may itself be determined by the system of wage payments or social security payments, by the level of housing or of home equipment which most consumers enjoy, or by the extent to which women are working outside the home), the willingness of consumers to make several different types of purchases in the same shop or their preference for being served by a series of specialised outlets, the relative importance of the consumption of perishables in total consumption and the extent to which facilities outside retailing proper are available and are used, in particular catering facilities such as school or factory canteens.

The 'ideal' relationship between retail establishments and population is impossible to determine theoretically, but the European evidence over the past thirty years shows fairly clearly that the effect of the above influences has been a slower increase in the number of retail establishments than in the number of persons engaged in retailing. In

other words, the trend has been towards a larger average size of retail unit. The same trend has been even more marked in the United States of America over a similar period.

Size of Retail Establishments

If the historical trend in those countries for which data exist — except Germany where there has been a change of territory — applied to the rest of Europe there would appear to have been an increase in the number of retail establishments in Europe, from the late 'twenties, early 'thirties to 1955, of over 10 per cent. The number of persons engaged in retailing increased faster, so that the average number of persons engaged per establishment would appear to have risen from about 2·3 persons in the first period to 2·7 persons in 1955. In the United States in 1954 the average number of persons engaged per retail establishment was more than double that in Europe, 5·7 persons.

In 1955 the countries with the highest number of persons engaged per retail establishment were Iceland (5·3 persons), the United Kingdom (4·3) and Sweden (3·7). The smallest average retail establishments were found in Belgium (1·6 persons per establishment), Greece (1·7) and Italy (1·8) (Table VIII).

If itinerant retailers, which for the most part had no employees, are excluded, the average number of persons engaged per fixed shop in Europe in 1955 was 2·9. But it will be noted (Table VIII) that the average number of persons engaged per fixed shop in Belgium (1·7), Greece (1·8) and Italy (2·0) remained very small.

The 'average' number of persons engaged per retail establishment is, however, a somewhat unreal concept when the term establishment covers both the pedlar with his wares on his back calling from door to door and the department store employing more than 3000 persons. The size distribution of establishments by number of persons

engaged is available for a number of countries. In nearly all cases information is available on the number of establishments where the owner works entirely alone with no em-

TABLE VIII

ESTIMATED AVERAGE NUMBER OF PERSONS ENGAGED PER RETAIL ESTABLISHMENT AND PER FIXED SHOP, BY COUNTRY, 1955

Country	Estimated Average Number of Persons engaged per :	
	Retail Establishment	Fixed Shop
Austria	3·2	3·3
Belgium	1·6	1·7
Denmark	3·1	n.a.
Finland	3·4	3·5
France	2·3	2·4
Germany *	3·3	3·6
Greece	1·7	1·8
Iceland	5·3	n.a.
Ireland	3·1	3·2
Italy	1·8	2·0
Luxembourg	2·6	2·8
Netherlands	2·7	3·1
Norway	3·0	3·2
Portugal	2·2	2·4
Spain	2·4	2·6
Sweden	3·7	3·8
Switzerland	3·2	3·3
United Kingdom	4·3	4·5
Western Europe	2·7	2·9

* Includes Saar and West Berlin.

ployees and no family workers. Some 1,600,000 of the retail establishments in Europe in 1955, or about 41 per cent, are estimated to have fallen in this category. The countries with the highest proportion of such one-man (or woman) establishments were Greece (79 per cent), Belgium

(65 per cent), Spain (58 per cent), Italy (51 per cent) and Portugal (50 per cent). In contrast only 22 per cent of the establishments in the United Kingdom were 'one-man shops', only 25 per cent in Finland and only 27 per cent in Sweden.

Data on the distribution among the other size-groups are less complete, but if some assumptions are made that countries with a similar retailing pattern have broadly the

TABLE IX

ESTIMATED DISTRIBUTION OF RETAIL ESTABLISHMENTS BY NUMBER OF PERSONS ENGAGED, IN EUROPE, 1955

Establishments with	Proportion of Total	
	Establishments %	Numbers engaged %
1 person engaged	41·0	15·0
2 persons engaged	31·5	23·5
3 to 9 persons engaged	25·5	38·5
10 or more persons engaged	2·0	23·0

same size distribution, some estimates can be made for Europe as a whole (Table IX).

Evidence from relatively few countries would suggest that the 3-9 size-group might be broken down as follows:

3-5 persons engaged: 20 per cent of establishments, 24 per cent of total engaged

6-9 persons engaged: 5·5 per cent of establishments, 14·5 per cent of total engaged.

These figures bring out clearly the small scale of operation of the majority of the European retail establishments. In nearly 3 million of the 4 million establishments only 1 or 2 persons were engaged, in the majority of cases the

owner, helped, perhaps, by a member of his or her family. Some 4,250,000 persons were engaged in these small establishments, or just under 40 per cent of the total numbers in retailing. The share of the total retail trade of these establishments is difficult to determine, but it is very unlikely that it was more than one-third of total sales, that is, 72·5 per cent of the establishments with 38·5 per cent of those engaged were responsible for some 33 per cent of total sales.

At the other end of the scale were the relatively large-size retail units, those with ten or more persons engaged. Such units numbered about 85,000 in 1955, or just over 2 per cent of the total number of establishments, they were responsible for some 23 per cent of the total numbers engaged — some 2,500,000 persons — and accounted, probably, for some 25-30 per cent of total sales.

In between came a million medium-size establishments, with some 4,250,000 persons engaged and accounting for about 40 per cent of total sales.

The large-size retail units, that is, those employing ten or more persons, were most prominent in the United Kingdom, where some 39 per cent of the total numbers engaged worked in such units. In Finland, Switzerland, Sweden and Ireland the proportion was between 24 and 28 per cent. In Germany, Denmark, Norway, the Netherlands and France the proportion ranged from 18 per cent down to 11 per cent. While in Italy — and if data were available no doubt a similar proportion existed also in Spain, Portugal and Greece — only 2·5 per cent of the total numbers engaged worked in establishments with ten or more persons.

Type of Merchandise Sold

An attempt can be made to divide the retail establishments into certain broad categories — food, clothing and

other goods — according to the main type of trading undertaken. Included in the food group are establishments selling tobacco goods and alcoholic and non-alcoholic beverages and butchers and bakers. Also included with the food group, where more detailed information was not available, are 'general shops'. Included in the clothing group are department stores and variety chain stores. The remaining establishments and persons engaged have been classed as 'other'.

In 1955 there were in Europe just over 2¼ million establishments engaged primarily in the food trades as defined above, or 57 per cent of the total number of establishments. Engaged in these establishments were about 52 per cent of the total numbers engaged in retailing — the average number of persons engaged per establishment being 2·5. There were just over 710,000 establishments selling mainly clothing, or about 17·5 per cent of the total number of establishments. Engaged in these establishments were 22 per cent of the total retail man-power — the average number of persons per establishment being much higher, about 3·4 persons. The remaining establishments classed as selling other goods — 25·5 per cent of the establishments and 26 per cent of the man-power — had an average of 2·8 persons engaged.

This pattern was in marked contrast to the United States of America where in 1954, following the same general definitions, 41 per cent of the establishments were in the food trades with 34 per cent of these engaged, 17 per cent of the establishments were in the clothing group with 32·5 per cent engaged and 42 per cent of the establishments were in the other goods group with 33·5 per cent of those engaged.

The information relating to individual countries is not particularly satisfactory owing to variations in the classification of establishments. These variations probably cancel one another out so far as the total picture of Europe is concerned, but they lead to major distortions if country-by-

country comparisons are made. There is little doubt, however, that the countries with the highest proportion of man-power engaged in the food trades are Greece, Spain, Italy and Ireland, and that the countries with the highest proportions engaged in the clothing trades are the United Kingdom, Sweden, Switzerland, France and Belgium.

Historically, scattered evidence would tend to suggest that the proportion of total establishments selling food has been declining in the past thirty years, the proportion of establishments selling clothing has remained about the same, while the proportion of those selling other goods has been increasing. As will be shown later, this trend is expected to continue and, of course, follows the trend in the pattern of consumers' expenditure in Europe.

Retail Sales

Estimates of retail sales in the different European countries that correspond with the estimates made above of the number of persons engaged and the number of establishments are difficult to make. Only in eight countries, at varying dates, was information collected on retail sales at the same time as information on establishments and numbers engaged and even in these cases the differences in coverage make comparisons difficult. In the other countries, while data exist on private consumption expenditure, the proportion of this expenditure that passes through retail channels is known to vary widely as between different countries.

These differences arise in part from the variations in the economic structure of the countries. For example, in most of the countries with a high proportion of the population engaged in agriculture, a farmer's consumption of his own produce, which is included in total private consumption, is important quantitatively. Secondly, there are variations in the proportion of private consumption spent on rent

and services. For example, 13·2 per cent of total private consumption is spent on rent in Switzerland but the percentage is only 4·9 in Austria. Thirdly, differences also arise from the extent to which particular consumer goods pass through what have been defined as retail establishments in this study. An illustration of importance in terms of sales is that of tobacco goods. In some countries, for example France, nearly all such goods are sold through cafés which are not classified here as retail establishments, whereas in Belgium more than two-thirds of the sales of such goods are made through regular retail establishments.

For the countries where no figures of retail sales were available, estimates had to be built up from the data on private consumption expenditure, taking into account the variations in the economic structure and in retailing practice in each case. There remains no doubt, however, that the estimates made of retail sales for Finland, Germany, Norway, Sweden and the United Kingdom and perhaps also for Denmark and Iceland, are more reliable than those made for the other countries.

Sales per Establishment

With these estimates of retail sales, which have all been calculated for the year 1955, it is possible to calculate the sales per establishment in the different countries. Further, these sales can be expressed in a common currency, dollars, using the official exchange rates. However, as the official exchange rates almost certainly distort the real sales per establishment it would be desirable, if possible, to convert the sales into dollars using average European prices. Calculations of the relative prices of all goods entering into retail sales for all the countries do not, however, exist for 1955. All that is available are estimates of total private consumption at average European prices.[1] This is not

[1] J. Frederic Dewhurst, *op. cit.* p. 948.

completely satisfactory as up to one-half of the elements entering into private consumption do not enter into retail trade and the relative prices of these elements, e.g. rent, do not necessarily follow those of retail items. But, in the

TABLE X

ESTIMATED RETAIL SALES PER ESTABLISHMENT, BY COUNTRY, 1955

Country	Estimated Retail Sales per Establishment in Dollars at :	
	Official Exchange Rates	Average European Prices
Austria	19,487	26,118
Belgium	14,095	11,497
Denmark	27,295	27,688
Finland	35,231	37,312
France	21,231	20,253
Germany *	24,865	27,906
Greece	7,500	6,970
Iceland	58,947	54,736
Ireland	20,400	21,371
Italy	9,969	10,320
Luxembourg	22,913	20,776
Netherlands	18,627	21,536
Norway	34,646	39,320
Portugal	6,918	8,969
Spain	10,182	13,611
Sweden	38,213	34,123
Switzerland	33,484	27,264
United Kingdom	35,248	35,748

* Includes Saar and West Berlin.

absence of other measures, the use of average European prices of consumption as a whole is probably an improvement on the official exchange rates. The estimates calculated both ways are given in Table X.

The variation in the sales per establishment as between different countries would appear to be influenced by four main factors: the number of inhabitants per establishment, the number of persons engaged per establishment, the

private expenditure *per capita* and the structure of the trade. A tentative analysis introducing three of these factors is made in Table XI.

TABLE XI

ANALYSIS OF SALES PER ESTABLISHMENT ACCORDING TO NUMBER AND SIZE OF ESTABLISHMENTS AND EXPENDITURE PER CAPITA, BY COUNTRY, 1955

Country	Number of Inhabitants per Retail Establishment	Average Number of Persons engaged per Establishment	Sales per Establishment in Dollars at Average European Prices
Group I	Countries with Expenditure *per capita* of $600-710 (at Average European Prices)		
Norway	97	3·0	39,320
United Kingdom	86	4·3	35,748
Sweden	82	3·7	34,123
Denmark	73	3·1	27,688
Switzerland	70	3·2	27,264
Luxembourg	60	2·6	20,776
France	57	2·3	20,253
Belgium	34	1·6	11,497
Group II	Countries with Expenditure *per capita* of $415-560 (at Average European Prices)		
Iceland	158	5·3	54,736
Finland	123	3·4	37,312
Austria	92	3·2	26,118
Germany	84	3·1	27,906
Ireland	83	3·1	21,371
Netherlands	65	2·7	21,536
Group III	Countries with Expenditure *per capita* of less than $320 (at Average European Prices)		
Spain	105	2·4	13,611
Portugal	89	2·2	8,969
Greece	84	1·7	6,970
Italy	59	1·8	10,320

The countries have been divided into three groups according to private expenditure *per capita*, for, as will be shown later, this factor has an important bearing on sales

productivity in retail trade, whether of establishments or of persons engaged.[1] Taking Groups I and II separately, the sales per establishment tend to decline as the number of establishments per inhabitant increases and the average size of the establishment declines.

An exception, so far as size of establishment is concerned, is Norway. As is discussed later, the relatively high sales in relation to the size of establishment in Norway is probably influenced by the high sales tax and the high proportion of wholesale sales by retailers.

When the figures for countries in the different groups are compared it can be seen that the high sales per establishment in Iceland and Finland (and to some extent in Austria and Germany) tend to be the result not of high expenditure *per capita* in those countries, but of relatively few establishments per inhabitant. In the case of Spain and Portugal, on the other hand, while there are relatively few inhabitants per establishment and the establishments are of medium size, these factors appear to be outweighed by the low expenditure *per capita* in these countries.

The other factor that can influence the relative sales per establishment is the structure of the trade, i.e. the proportion of total trade undertaken in food establishments, clothing establishments and other types of establishments, as it is known that the sales per establishment in different trades vary even given the same size of unit. Unfortunately, as mentioned above, there is insufficient data on the division into comparable or homogeneous trades to allow this factor to be examined.

Retail Sales per Person

Before examining the retail sales per person in the various countries an adjustment can be made to the man-

[1] The estimates of private expenditure *per capita* are given in the Appendix, Part III, Table XXIII.

power figures. Ideally this input should relate to the total number of man-hours worked, but this proved impossible to calculate for all countries. In those cases where the great majority of the numbers engaged were employees, where the number of part-time workers had been recorded, where there existed collective agreements regarding the working hours in retailing and where the opening hours of shops were subject to legislation, some approximate calculations of the total number of man-hours worked could be made. But in those cases where a high proportion of owners and family workers were engaged and where the opening hours of retail establishments were fixed by personal decisions of their owners rather than by an accepted agreement applying to all establishments, not even approximate calculations of man-hours could be made.

However, as discussed above, information was available for some countries regarding the number of part-time workers and in these cases two part-time persons could be taken as the equal of one full-time person. In those countries where no such data were available an assumption has been made that the majority of family workers were in effect part-time workers and that two family workers could be counted as the equivalent of one full-time person.

Using this method of estimating the number of full-time persons engaged, the calculations of sales per person in the different countries can be made. As in the case of sales per establishment, these estimates are made using the official exchange rates and also average European prices (Table XII).

At first glance the differences in sales per person in the various countries seem surprising. While the range between the highest, Norway, and the lowest, Portugal and Greece, is less than in the case of the variation in sales per establishment, the ratio of over 3 : 1 seems high. Certainly, given that the data on retail sales and on numbers engaged

are in many cases somewhat unsatisfactory, too much attention should not be attached to minor differences in the sales per person. But errors are unlikely to account for

TABLE XII

ESTIMATED RETAIL SALES PER PERSON AND PER FULL-TIME PERSON, BY COUNTRY, 1955

Country	Estimated Retail Sales		
	In Dollars using Official Exchange Rates		In Dollars using Average European Prices
	Per Person engaged	Per Full-time Person engaged	Per Full-time Person engaged
Austria	6,095	6,641	8,903
Belgium	9,024	9,988	8,145
Denmark	8,763	9,250	9,381
Finland	10,419	10,600	11,229
France	9,183	9,933	9,451
Germany *	7,558	8,227	9,233
Greece	4,412	4,708	4,375
Iceland	11,200	11,475	10,717
Ireland	6,550	6,952	7,279
Italy	5,514	6,466	6,694
Luxembourg	8,741	9,833	8,900
Netherlands	6,811	7,597	8,783
Norway	11,462	12,205	13,854
Portugal	3,198	3,232	4,192
Spain	4,230	4,480	5,989
Sweden	10,401	10,831	9,671
Switzerland	10,412	11,182	9,106
United Kingdom	8,135	9,333	9,465

* Includes Saar and West Berlin.

the larger differences shown and, to complete the picture, the sales per full-time person in retailing in the United States of America in 1955 (using the same general definitions of persons and retailing) were about $20,000 at official exchange rates. This suggests that the sales per person engaged in the United States were nearly two and

a half times the average for Europe, or, as a theoretical example, if sales per person engaged in Europe approached the American level, the total man-power required would be of the order of 5 million full-time persons instead of the present 10 million.

What are the factors giving rise to these variations? Some obvious elements are differences in the retail structure

Chart I

RELATIONSHIP BETWEEN PRIVATE CONSUMPTION PER CAPITA AND SALES PER PERSON IN RETAILING, 1955, USING OFFICIAL EXCHANGE RATES

as between countries, in the relative wage and cost levels, in population density and growth, in the amounts of capital employed in retailing, in the scale of operation of retail businesses, in the gross margins, in the value of the transaction, in selling techniques and even in taxation and legislation.[1] But apart from these — or in effect, having a direct bearing on some of the above elements — there would appear to be little doubt that an important factor,

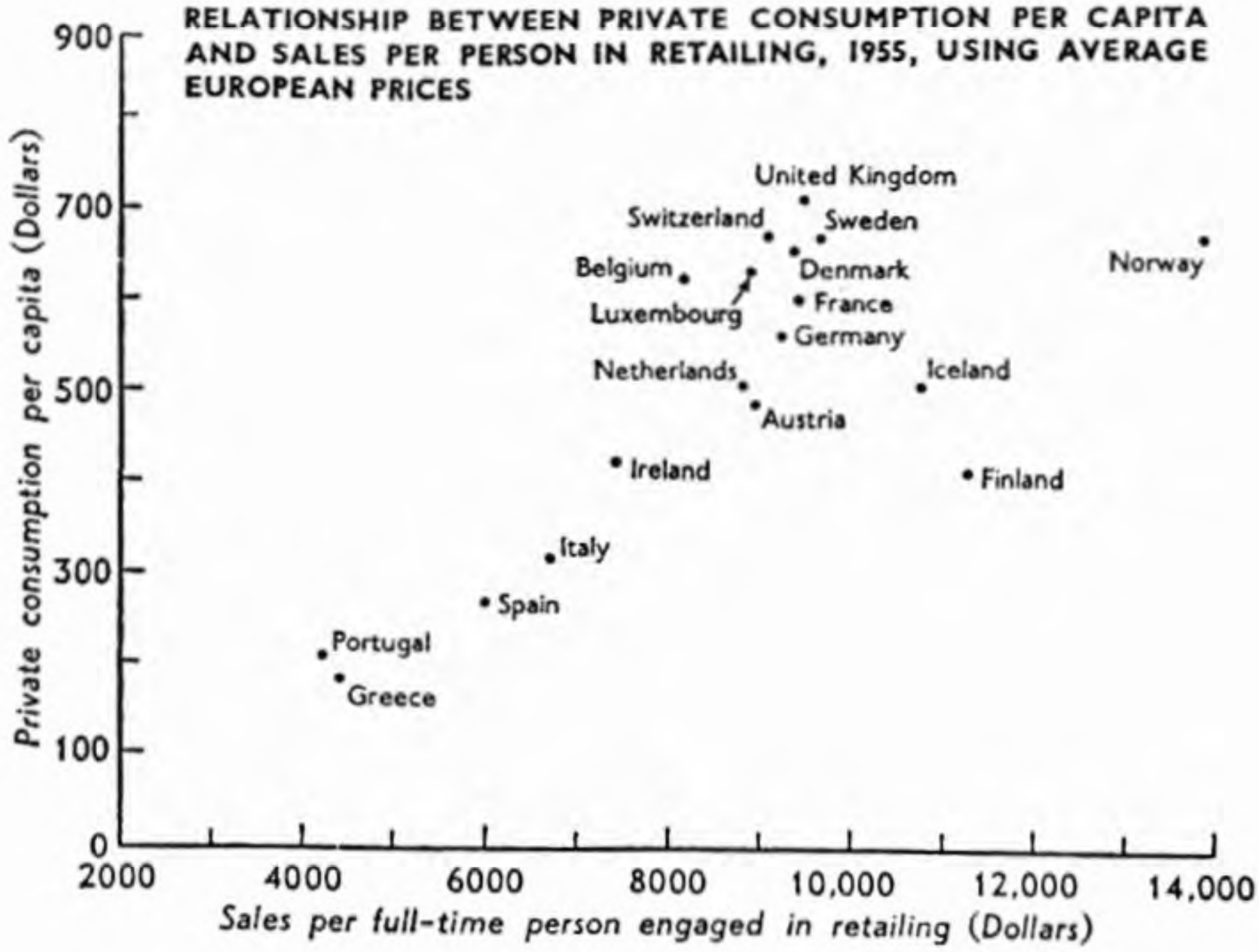
[1] For an exhaustive discussion of the factors influencing the differences between Great Britain and the United States see Margaret Hall, John Knapp, Christopher Winsten, *Distribution in Great Britain and North America* (Oxford, 1961).

if not the determining factor, influencing the sales per person engaged in retailing is the level of real consumption per head in the particular country.

The influence of this factor can be shown if personal consumption *per capita* is plotted on one axis and sales per full-time person on the other axis (as is done in Charts I and II, using official exchange rates and average European prices).

Chart II

RELATIONSHIP BETWEEN PRIVATE CONSUMPTION PER CAPITA AND SALES PER PERSON IN RETAILING, 1955, USING AVERAGE EUROPEAN PRICES



Both these charts tend to show that there is a measure of relationship between expenditure *per capita* and sales per person engaged in retailing. A somewhat similar picture emerges, as might be expected, if retail sales *per capita*, instead of private expenditure *per capita*, are plotted on one axis. Certainly the countries are not in a perfectly straight line. Three groups of countries can perhaps be distinguished. First, the eight countries (except Iceland and Finland) which have a relatively low income *per capita*. In these instances an increase in income *per capita* is ac-

companied by a significant increase in sales per person in retailing. Secondly, there is a bunch of seven countries (except Norway) where the expenditure *per capita* is relatively high and somewhat the same, but there are variations in sales per person. To what extent these variations in sales per person are the outcome of unreliable data or of differences in retailing methods and organisation cannot, given present information, be determined. Finally, there would appear to be three exceptions, Norway, Iceland and Finland. If the latter three countries are excluded, the correlation coefficient on both charts is above 0·9.

Why the three countries, Norway, Iceland and Finland, appear to have such high sales per person engaged in retailing, relative to other countries with similar rates of consumption *per capita*, is difficult to explain. In the case of Norway, the 10 per cent sales tax on all retail sales obviously inflates sales per person engaged. The sales tax in Norway is much higher than in any other European country. But, of course, the Norwegian figure of consumption *per capita* at market prices is equally influenced by the sales tax, though not to the degree to which the sales per person in retailing is influenced as not all types of consumption are taxed. A more important influence, however, is the fact that it has not been possible in the Norwegian figures to eliminate the sales made by retailers on wholesale terms. In 1957 some 9 per cent of the total sales by retailers in Norway were wholesale sales; a proportion very much higher than in Finland, Sweden, Denmark and the United Kingdom — the other countries for which a break-down of retailers' sales into sales on retail and wholesale terms is available. Since much greater quantities of goods are purchased in one wholesale transaction than in a normal retail transaction, the existence of this element in the sales figure tends to inflate the sales per person engaged. In fact, the sales per person engaged in wholesaling in Norway in 1957 were some two and a half times the sales per person

engaged in retailing, including the wholesale element in retail sales.

In the case of the other two exceptions, Iceland and Finland, the figures for Iceland are necessarily doubtful as no Census of Distribution has been taken in that country. It may be that retailers there also made an important proportion of wholesale sales. But, as shown above in Table VII, Iceland and Finland have fewer retail establishments per head of the population than any other European country, nearing the ratio in the United States. Table VIII also showed that in Iceland and Finland the establishments are relatively large as measured by the number of persons engaged. These two factors may have had an important bearing on the relatively high sales per person. In addition, Iceland and Finland are further distinguished from other European countries by the important proportion — over 30 per cent — of total retail sales that is in the hands of the Consumer Cooperative movement. In many rural areas of Finland the Cooperative movement has a near monopoly of retail trade.

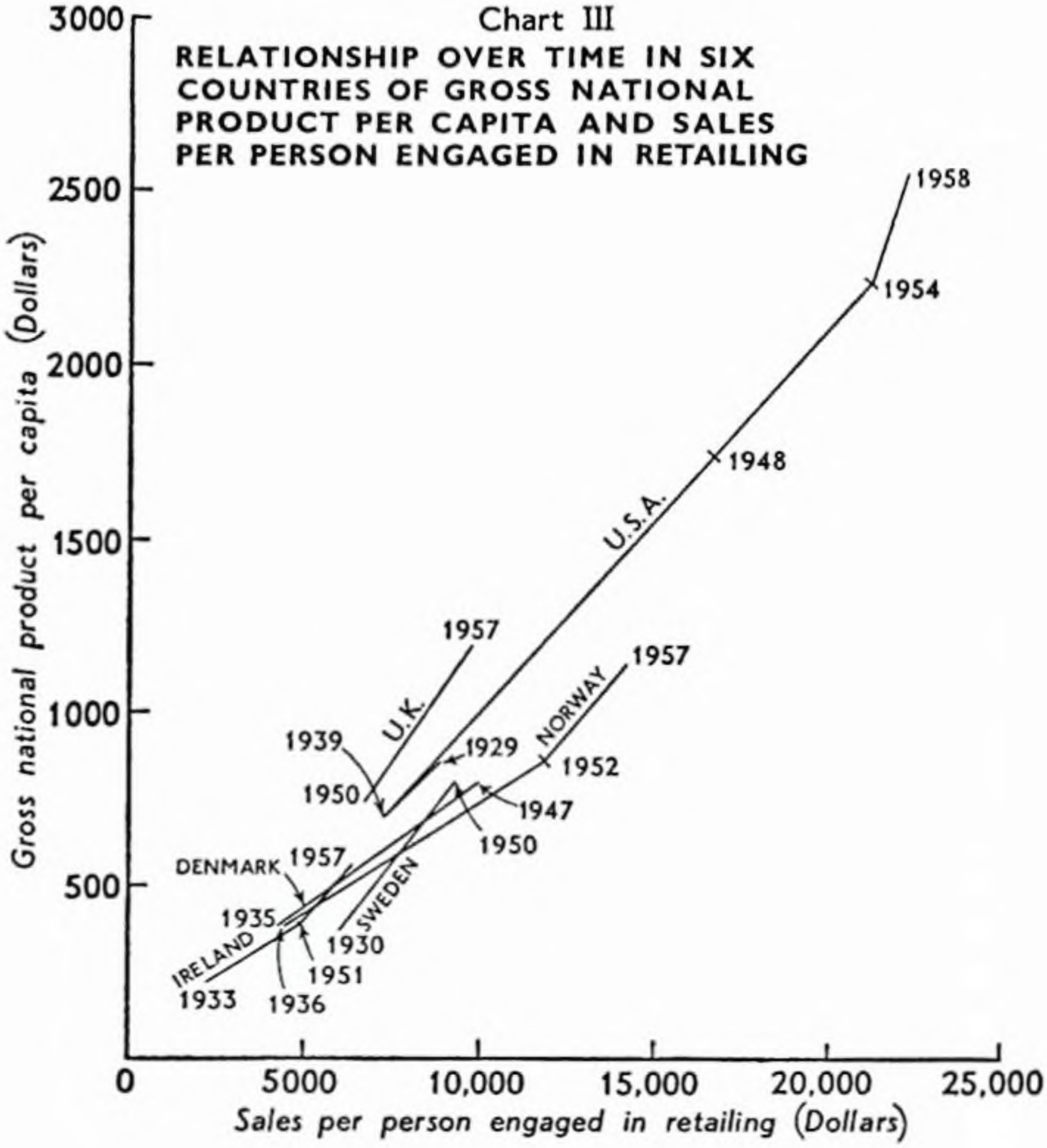
But apart from attempting to find reasons for the exceptions, the question must also be asked as to whether this element of relationship between sales per person engaged in retailing and private expenditure *per capita* is accidental, i.e. relating only to the special analysis made for the year 1955, or whether there is any historical evidence for the hypothesis. An attempt to examine this has been made.

Five European countries have held two or more Censuses of Distribution (in one form or another) which yield information on numbers engaged and retail sales. To the figures of these five countries can be added those of the United States of America. It is not possible to recalculate the data from the various countries to make the definitions of retailing, sales and persons comparable as between countries, and in some cases it is known that the

figures are not fully comparable over time within the country. Further historical data on private consumption *per capita* do not exist for every country, but it is possible to use more or less accurate estimates of the gross national

Chart III

RELATIONSHIP OVER TIME IN SIX COUNTRIES OF GROSS NATIONAL PRODUCT PER CAPITA AND SALES PER PERSON ENGAGED IN RETAILING



product per head. The sales per person engaged in the different countries and the gross national product *per capita* at the different dates have been converted into dollars (using the official exchange rates as no other method is available) and the result is shown in Chart III.

The data on which the Chart is based are admittedly

rough and approximate.[1] There are problems of the pre-war rates of exchange, of changing Census definitions, of variations in the numbers of part-time workers for which allowance has not always been possible. Equally, the use of Gross National Product is less satisfactory than private consumption *per capita*, as the proportion of private consumption in the Gross National Product varies between countries and over time. Nevertheless the Chart shows that there is a degree of parallelism between the lines of the different countries and for different periods of time: the lines linking a pre- and post-war observation showing one slope and the lines linking two post-war observations a slightly differing slope except in the case of Sweden. The lines were not expected to overlap as the definitions used in the various Censuses differ.

Again this evidence by itself is not conclusive: there are too few countries and too few points of observation. Nevertheless this historical data combined with the more extensive and more comparable data given above for the year 1955 perhaps permit the following tentative conclusion to be drawn. As the standard of living rises in a country, as expenditure *per capita* increases as a result of improvements in real productivity in other sectors of the economy, so the sales per person engaged in retailing also tend to increase. To compare sales per person engaged in retailing without taking into account other factors, particularly expenditure *per capita*, leads to false conclusions. But at the same time, particularly when examining differences between countries which have a similar level of expenditure *per capita*, it is clear that other influences also operate.

Some of these influences have been mentioned above. The list was not exhaustive. But the techniques of measuring the effects of these factors are still in their infancy, due largely to lack of data. For example, it is of

[1] The figures on which the chart is based are given in the Appendix, Part III, Table XIX.

importance to know to what extent the sales per person engaged in the different countries are influenced by variations in the average size of transaction, that is, the money value of each separate purchase made by the customers. Generally, it is known that — at least in Europe — the average value of separate transactions in food retail establishments is lower than in clothing and other types of establishment. Private consumption data also show that, of the goods entering into retail trade, foodstuffs represent a much higher proportion in, for example, Italy, Spain, Portugal and Greece (60-70 per cent) than in the United Kingdom, Switzerland, Sweden and Denmark (41-49 per cent).

The apparently low performance of persons engaged in retailing in the first four named countries compared with the latter four can, therefore, be the result, not of fewer transactions per person engaged in retailing, a measure (not altogether satisfactory) of real output, but of a much lower average value of each transaction. Or to put it in simple terms, an Italian salesgirl may make twenty food transactions in an hour but the monetary value of her sales may be only one-half that made by a Swedish salesgirl making one transaction in a clothing store. But the exact influence of this factor cannot be measured as data do not exist.

Certainly, the influence of some of the technical factors can be examined by the use of the case-study method, or of inter-firm comparisons of similar enterprises in the same trade within a country. Simple examples are the analysis of the influence of introducing self-service, or of differences in the average value of the transaction. This method is, however, less satisfactory in making comparisons between countries as the influence or effects of differences in the national economies, e.g. economic structure, income level, relation of production cost to distribution cost, pattern of consumption, etc., have to be known and isolated.

In this respect the international comparisons of performance in individual homogeneous trades or even types of enterprise would appear to offer the prospect of more meaningful conclusions than the overall comparisons of differing retail structures.[1] An existing and growing problem influencing such an analysis is the trend away from specialist retailing to mixed merchandising.

At present, in Europe an analysis by trades covering several different countries will have to await more detailed and comparable Census data. The information that is available on small- and large-scale retailing is, however, discussed in the following chapters.

[1] See Margaret Hall, *et al. op. cit.* An attempt to use this method was made in this study. But as in only a few countries have full Censuses been taken, giving establishments, employment and sales, and as most of these were at differing dates, so many assumptions had to be made to project the data by trades to a common date in a period of post-war change and rising prices, that the end-results were highly doubtful. Projections for retail trade as a whole were more satisfactory.

[19]

The Evolution of Retailing Industries in Japan

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I. The Changing Pattern of Japan's Distribution Structure

This paper examines the development of retailing industries in Japan's modernization and industrialization. The retailers cater directly to the consumer at the end of distribution channels, carry out the distribution function that combines production with consumption, and establish the distribution structures. As a result, to study the development of the retailer with this function involves tracing the history of marketing in each country.

The distribution structures are regulated by economic, social and cultural conditions and take a different pattern in every country and in each period. As is widely known, the following are the distinguishing characteristics of the Japanese distribution structure. First, the Japanese distribution structure consists of a large number of smaller establishments whose productivity is rather low. However, a disproportionate share of the total sales is concentrated among a small number of large-scale establishments in the structure. Secondly, the distribution channels are highly complex and circuitous. In addition, traditional trade practices, which have become rather more complicated, still exist in the contemporary distribution structure.[1] These features had a formative role in the industrialization of Japan and laid deep roots before World War II. Although the Japanese distribution structure has changed with rapid economic growth during the postwar decades, it basically retains its prewar features.

The wholesalers (*tonya*) in Japan had dominated the distribution system for many years since they established their position

in the Tokugawa era. The opening of the treaty ports in 1859 and the subsequent reforms by the Meiji government affected the trading organization, but did not change it in substance. The traditional distribution structure also survived, in spite of rapid industrialization, because of the government policy of stressing capital goods and because of the differential structure in Japanese industry. As a consequence, the traditional distribution system dominated many industries. Some manufacturers in the modern industrial sector, however, reorganized their traditional distribution system and created their own marketing channels. In the Taisho era, the modern distribution channels were well established among some manufacturing industries, such as beer, foreign liquor, confectioneries, cosmetics, chemical seasoning, electric appliances, paper (Western style), wheat flour and sugar. A few manufacturers producing confectioneries and cosmetics, in particular, included the retailers in their sales organization. In most cases, however, the intensification of marketing channels stopped at the wholesale level. Some manufacturers among these new consumer industries are generally known as marketing-oriented firms.

The traditional distribution system suspended its functions during the period of the controlled economy—from World War II to some time after the war. For that reason, they could not meet the changing conditions in the postwar period.

Japan has, during the postwar decades, achieved rapid economic growth and has been undergoing remarkable social changes. The time of a mass consumption society has arrived. In the early 1950s manufacturing industries made intensive commitments to new capital investment. The innovative investments stimulated the very rapid growth of industries, particularly those producing consumer durables. Dynamic investment in the private sector also resulted in further growth in output. Thus, the Japanese economy reached its prewar level in the early 1950s and thereafter the country's GNP increased rapidly. Between the mid-1950s and the mid-1960s income level doubled and showed a tendency to standardize. As the standard of living rose, consumption patterns and modes of living altered. In the late 1950s Japan had thus entered into a mass consumption society.

As the environment of distribution changed, large-scale manufacturing firms began to reorganize their own sales organizations from the mid-1950s onwards. The existing distribution systems changed as a result. Changes in the distribution system were notable in the consumer industries, because the marketing-oriented manufacturing firms were increasing. The consumer industries most innovative in their approach to marketing were electric home appliances, automobiles, synthetic fibers, pharmaceuticals, cosmetics, cameras, and processed foods. Some large-scale manufacturing firms of producers' goods such as steel, paper and the like also actively performed marketing functions.

Thus, the traditional distribution system dominated by the wholesalers over many years changed fundamentally. The producers took the place of the wholesalers who had dominated distribution channels, and the result was the emergence of a manufacturer-dominated distribution system with vertical integration.

The development of distribution systems in postwar Japan was as follows. In the early 1950s most manufacturing firms set up their marketing channels dependent on the existing trading organization. However, some manufacturers of electric home appliances established their own sales subsidiaries about this time. In and after the mid-1950s large-scale manufacturing firms systematized cooperative wholesalers and retailers, giving them various kinds of assistance. A few of the more innovative firms attempted to go one step more and organize consumers.

The trend to systematize the distribution channels was particularly notable in such industries as automobiles, electric home appliances, cosmetics and cameras, where producers' control over the channels of distribution was increasing. In the electric home appliance industry, in particular, the systematization of distribution channels did not stop at the wholesale level, but reached the retail level. Around 1960 some firms in such industries as home appliances and cosmetics had organized the consumers with intent to avoid price cutting and to expand the market. In the mid-1960s manufacturers tightened their control over marketing channels. For instance, manufacturers of such products as household soap, toothpaste and drugs tightened the systematization by means

of the resale price maintenance system. Producers in the home appliances industry established many sales subsidiaries on a territorial basis and controlled them rather tightly.

The distribution structure changed with the development of retailing industries. Since the early 1900s, when department stores came into existence, the Japanese retailing structures had consisted of a small number of department stores together with a large number of small-scale independent retailers. However, as the new type of large-scale retailing institutions emerged during the mid-1950s, signs of change appeared in the retailing structure. During the 1960s new retailing institutions developed considerably, putting pressure on the existing institutions.

The traditional distribution structure was thus forced to change under pressure from both manufacturing and retailing sides. During the 1960s, as a result, the distribution revolution (*ryūtsū kakumei*) began and it is still continuing now.

It was the wholesaling sector that was most affected by this distribution revolution. Although it is premodern in that it is a structure consisting of a large number of small-scale establishments and multiple levels, the number of wholesalers is still increasing. It was said that the changes in the wholesaling structure would become clear in the late 1970s.[2] Of course, some wholesalers adapted quickly to the new environment. The trading firms whose role had been expected to decline promoted the policy of vertical integration in phases of domestic trade and began strongly to influence the formation of new distribution systems. Some progressive wholesalers have also attempted to organize voluntary chains and to develop original product lines as well as private brand merchandise.

The primary factors regulating the development of the distribution sector are the structure of production, the level of economic development, and such social conditions as the level and distribution of income, the growth and movement of population, the lifestyle and the technologies of communication. Legislation, industrial policy and cultural patterns are also influential; and the development of the distribution sector strongly depends on the

place of entrepreneurship in the economic, social and cultural environment of any given country.

The above historical examination of the Japanese distribution structure has shown the rapid changes it experienced in the post-war decades. The recent retailing sector, in particular, has changed most drastically and has strongly affected the entire distribution structure. However, the structural features of the old Japanese retailing sector, consisting of a large number of small, inefficient retail outlets, still exist.

There were more than 1.61 million retail establishments in Japan in 1976. Their sales figures amounted to an annual total of about ¥55 trillion; they had slightly less than 5.6 million employees. Their sales floor space was 77 million square meters. Here we should note that 95.9 percent of all retail establishments were small shops with nine employees or less. Retailers with two employees or less, in particular, still accounted for 61.9 percent of all retail establishments (compared with 70 percent in 1958). But their annual sales in 1974 was only 15.1 percent of the total sales volume. On the other hand retail establishments with 100 employees or more represented 0.1 percent of all retailers, and were responsible for 15.6 percent of the total sales volume.[3]

The Japanese retailing sector lagged far behind the manufacturing sector in its modernization. In spite of rapid economic growth, retailing forms did not develop by stages in prewar Japan because the capacity of the distribution network to change was limited. But the conditions that limited development changed substantially after the war, and the entire distribution structure began to respond to them. In the retailing sectors, such new large-scale retailing institutions as supermarket chains, installment-plan department store chains and speciality store chains emerged and grew.

Changes in the retailing sector did not necessarily occur suddenly in the postwar period. Although they had a certain limit, as social and cultural conditions changed gradually with industrialization, the challenge to break with convention was faced continually by the existing retailers. Consequently, the department stores were

established in the 1900s, and such new retailing institutions as installment-plan stores and chain stores appeared between the 1920s and 1930s. Some private railroad firms also set up the unique retailing institution known as the terminal station department store, and consumer cooperatives also went into retailing. Although none of them attained full growth except the terminal station department store, they had the potential to develop as retailing industries in the postwar period. I would like to examine the changing pattern of retailing institutions in the following section.

II. The Age of Department Stores and Small-Scale Independent Retailers

During the first decade of the Meiji era not a few old-fashioned merchants went bankrupt because of a slump in domestic trade. In such cities as Tokyo and Yokohama the newly-risen merchants emerged in their place. From the late 1870s the domestic market grew and the distribution of merchandise rose in line with the expansion of production and foreign trade, the growth of the infrastructure of transportation and communication, and the changes of lifestyle attendant upon Westernization. Retail activities consequently showed a buoyancy and the number of retail establishments increased. In 1885 there were over one million,[4] a large number of which were in such categories as confectioneries, grain, alcoholic beverages, dry goods and green groceries or fruit, kitchenware and notions.[5] The number of merchants dealing in Western-style articles (hats, umbrellas and clothing) also increased rapidly. In the early 1870s most had combined wholesaling and retailing businesses, but later they specialized gradually in one or the other.[6]

The types of retailers began to differentiate as the number of establishments increased. In big cities and in the early period, general stores grew gradually into stores dealing only in a single line of merchandise. Some among the latter became large-scale speciality stores. In the course of time, they also formed a shopping street, thoroughly planned versions of which appeared in big cities. The first modern one was the Ginza, completed in 1878 as part of the government policy toward modernization. It comprised representa-

tives of the progressive merchants and has since been a model for shopping streets.[7]

A collective form of retailing called "*Kan Koba*" appeared. It was a kind of leased department store where the owner of a building leased space under one roof to various independent retailers. It was originally established as a public institution by Tokyo Prefecture in 1878.[8] After that, such stores were established successively by private, progressive people in such cities as Osaka, Yokohama, Fukuoka, Sapporo and Shizuoka between the early 1880s and the 1900s. It attained the highest stage of prosperity in Tokyo between the late 1880s and the 1900s, and there were twenty-seven establishments in 1902. It influenced the modernization of retailing by means of an acceptance of one-price policy and open display, employment of saleswomen, introduction of company organization and so on.[9] However, it declined from the late 1890s because of excessive competition among joined retailers, or because of a lack of able managers and funds.

The first type of large-scale retailing institution was the department store. It was the most significant institutional innovation in the prewar retailing sector. Soon after the coming of the new century the old, famous, dry-goods stores in such big cities as Tokyo, Osaka and Kyoto—for example, Mitsukoshi, Shirokiya (Tokyu), Daimaru, Takashimaya, Matsuzakaya and Matsuya—converted themselves into department stores. Within a short period of time they introduced a company organization, expanded their lines of merchandise, improved their displays, introduced rudimentary sales promotion and consequently developed into modern department stores. Thereafter the change to department stores extended to dry-goods stores in such provincial cities as Sapporo, Kagoshima, Okayama, Sendai and so on.

As stated above, most of the prominent central department stores in Japan developed from dry goods stores. Most of them, furthermore, had been founded in the Tokugawa era. In particular, Mitsukoshi, one of the leading department stores in Japan, originated in Mitsui's Echigoya. As is well known, Echigoya, in 1683, introduced the innovative methods of small profits and quick returns based on a policy of "cash-pay, low prices, no mark-ups."

It is important to note that some of the innovative business practices occurred in this period.[10]

Between the end of the Tokugawa era and the early Meiji era many long-established merchants went into a slump, while dry goods stores of some merchants gradually changed their traditional business operations in and after the late 1880s. They were the first to deal in Western clothes, and from the late 1890s they improved their sales methods and changed from traditional business organizations and practices.

The entrepreneur who first established the department store in Japan was Ōsuke Hibi, Mitsukoshi's founder. He was a graduate of Keio Gijuku and was one of those college graduates whom Hikijirō Nakamigawa, the leader of Mitsui in the 1890s, systematically employed at that time. Though most of these graduates went into the modern industrial sectors, Hibi endeavored to set up a modern enterprise in the retailing sector and ran Mitsukoshi on the one-man/one-business principle. Hibi's ideas on department store management owed much to Harrods of London. However, the traditional spirit of small profits and quick returns lay at the root of his ideas and it was his business policy that department stores offer good articles, carry out honest advertising and satisfy their customers first of all.[11]

Mitsukoshi broadened its range of merchandise after its foundation in 1903, and consequently it dealt in various articles—cosmetics, hats, children's clothing, bags, footwear, Western umbrellas, boots and shoes, combs and ornamental hairpins—until 1907. Mitsukoshi also reopened its tailor's shop and established a restaurant and photo studio. When a Renaissance building of three stories was completed in 1908, it dealt in precious metals, tobacco and stationery. Then Mitsukoshi began to handle foreign liquor and groceries when a new five-story building with escalators, air conditioning and a sprinkler system was completed in 1914. Mitsukoshi thus completed all the essential features of the modern department store.[12]

The other stores in metropolitan areas followed Mitsukoshi with the extension of buildings and the broadening of product lines. Although their buildings were commonly of three stories in

the early days, they became five-story ones between the end of the Meiji era and the beginning of the Taisho era. It was in and after the 1920s that buildings of seven stories first appeared. The department stores established their base, as they spread from big cities to provincial cities between the end of the Meiji era and throughout the Taisho era, with such features as the introduction of advanced display, the enforcement of cash-pay and one-price policy, and the offer of total shopping comfort.

The genesis and growth of department stores are related to the rise of the urban market. Urbanization in Japan began in the middle period of the Meiji era and continued into World War I. Of the nation's entire population, the percentage in areas with 10,000 or more increased from 11 percent in 1879 to 18 percent in 1898, 25 percent in 1908 and 32 percent in 1918. During this period the number of cities increased remarkably; in particular, big cities with populations of more than 100,000 increased from six in 1891 to sixteen in 1920.[13] It is important also to note that the populations of Tokyo and Osaka doubled during this period. The concentration of people in cities made for a broader and deeper market than in rural areas.

Although the traditional dry goods store, the predecessor of the department store, had social prestige and accumulated funds, it had reached its limits. As a result, some progressive stores grew to be department stores with the absorption of foreign know-how and talent. However, conservative family ownership and other traditional factors persisted in the management of the original department stores. For instance, with regard to types of customers handled by each department store, Mitsukoshi's were people of property and peers descended from court nobles, Daimaru's were ordinary people downtown, and Takashimaya's were the aristocracy.[14] Their customers were mainly the upper and upper-middle classes. However, as social changes became clear in the turning-point period of World War I, department stores directed their efforts toward a more general clientele.

It was due to price rises during World War I that department stores changed their image. They broadened their appeal, expanded varieties of everyday necessities and attached importance to discount

sales. For example, Mitsukoshi sold, at a discount, dry goods, miscellaneous goods and groceries in 1919, and built a discount sale corner in 1922. It was in this period that department stores began to sell at a discount a series of articles with famous brand names, while also strengthening dependence on household items.

Conditions in retailing changed rapidly between the late Taisho era and the early Showa era. In Tokyo, particularly, the serious Kanto earthquake in 1923 spurred such changes. As a result, department stores broadened their appeal further with the selling of miscellaneous goods, the expansion of branch networks and the abolition of a requirement that customers remove their shoes when entering the store. During this period they altered their multistory buildings and eliminated any reference to their draper's shop (*go-fukuten*) origin from their name. And all through the depression at the beginning of the Showa era they competed with each other in the construction of branch stores: for example, Mitsukoshi had ten branches in 1933. At the same time, some department stores moved to Ginza, Shinjuku and elsewhere as these areas grew. These moves were to profoundly affect these stores' later development.

The social changes between the late Taisho era and the early Showa era not only made the existing department stores change their business policy but also created a new type of department store. It was "the terminal station department store" that was owned and managed by private railroad firms in such metropolitan areas as Tokyo and Osaka. It was Ichizo Kobayashi—the founder of Hankyu Corporation—who developed this new idea. He was a creative entrepreneur who set up, for the development of railroad firms, such related businesses as housing land development, recreation areas and department stores.

Kobayashi sensitively responded to changes in urban living and the rise of the middle classes and introduced new practices in the railroad business. He built a market dealing in groceries and miscellaneous goods under the firm's direct management in the Hankyu Building in 1925. In 1929 he opened Hankyu Department Stores. This Hankyu Hyakkaten directed its appeal to the new middle classes living along railway lines and, unlike the traditional department stores gave priority to restaurants, groceries and mis-

cellaneous goods.[15] The "terminal station department stores" also emerged in Tokyo, and in 1934 Tokyo Yokohama Electric Railway (a forerunner of Tokyu Corporation) built the Toyoko Department Store (a forerunner of Tokyu Department Store); the other railroad firms followed suit.

The number of department stores had increased rapidly by the mid-1930s with new ones being built in metropolitan areas and provincial cities to join those which had developed from dry goods stores. Department store companies increased from 8 in 1921 to 14 in 1925, to 21 in 1928 and to 41 in 1933.[16] When the Japan Department Store Trade Association (*Nihon Hyakkaten Shogyo Kumiai*) was organized in 1933, it had 36 members who qualified by having at least 3,300 square meters of sales space in the six largest cities, and a minimum of 1,650 square meters in provincial cities.[17] Then, when the Japan Department Store Association (*Nihon Hyakkaten Kumiai*) reorganized in conformity with the 1937 Department Store Law, its qualified members (stores with at least 3,000 square meters of sales space in the six largest cities, and with a minimum of 1,500 square meters in places other than those cities) numbered 87, and they represented a total of 151 establishments.[18]

As the number of department stores increased, the competition among department stores in metropolitan areas intensified with the operation of special discount sales and other services. In each department store, therefore, expenses and fixed assets increased, and ultimately profits decreased. In addition, the antagonism of smaller-scale retailers toward department stores which had existed since the end of the Taisho era became even stronger in this period. The anti-department store movement intensified during the depression period in early Showa, extended from metropolitan areas to provincial cities and became a social and political issue. The Japan Department Store Association announced a policy of strict self-control of department store practices and finally the department stores were forced to conform to the Department Store Law enacted in 1937.

It is not clear how strong the influence of department stores in the entire retail sector was. In Tokyo there were 58,812 retail establishments in 1931. Their sales figures amounted to ¥657

million. Small-scale retailers accounted for 98.1 percent of all retail outlets and 53.3 percent of total retail sales. By contrast, the department stores, consisting of only eight establishments, accounted for 33.2 percent of total retail sales.[19] In addition the department stores in Tokyo City in 1934 accounted for 24 percent of total retail sales.[20]

The prewar structure of the Japanese retail sector consisted of a large number of small retail outlets on the one hand and a small number of large-scale department stores on the other. However, there were signs of change. As social and economic conditions changed from the middle of the Taisho era, public and private retail markets were set up and consumer cooperatives began retailing operations; also such new types of retailing institutions as installment stores and chain stores appeared. Installment stores and chain stores in particular represented changes that would fully develop in the postwar retailing industry.

In the prewar period, also, a small number of firms or entrepreneurs were concerned about the adoption of a system of chain stores that was developing in the United States of America. A few firms in the consumer industry had already promoted the chain system to tighten their control of marketing channels in the 1920s. They did not establish a firm basis at that time, although some manufacturers, wholesalers and retailers began to introduce the chain system. Takashimaya, a department store, began to operate variety stores, meeting with considerable success. From 1930, Takashimaya developed chains in such cities as Tokyo, Osaka and Kyoto, and had 51 stores in 1932. But Takashimaya abandoned this policy in accordance with the Japan Department Store Association's announcement of self-control. It then set up a subsidiary in 1938 and enlarged the chains. It grew rapidly and had 106 stores, 2,172 employees and sales floor space of 38,989 square meters by 1941.[21] In the early Showa period some voluntary and cooperative chains appeared. Although development here was limited, they represented a new movement of small retailers to counter the department stores during the depression. It is interesting to note that Ito-Yokado, a typical mass merchandiser, participated in the formation of cooperative chains in this period.[22]

Stores which sold on the installment plan also groped for a new direction. The modern installment system was introduced by Singer, one of the makers of sewing machines in the United States of America, which moved into the Japanese market in the early 1900s. Subsequently, these measures were adopted by manufacturers of such durable consumer goods as cash registers and musical instruments. But Japan already had an installment system which had been introduced in the Tokugawa era; this expanded from the Meiji era on and installment-plan stores were set up in such cities as Tokyo and Osaka between the end of the Meiji era and the early Taisho era. They dealt mainly in furniture and clothing, and some of them introduced multistore operations. Although they were not highly regarded by most people in the prewar period, some of them continued to modernize, eliminating traditional methods in the process. Marui, the leading installment-plan department store chain, was the innovator here.[23]

The sales of department stores reached a peak in 1934, but as the economy became more and more controlled, retailers found it impossible to operate freely. Thus, such new types of retailing institutions as chain stores and installment stores could not grow, although they had been established. It is, however, noteworthy that some of the existing mass merchandisers were founded between the end of the Taisho era and the opening years of the Showa period.

III. The Growth of New Retailing Institutions and the Change of Traditional Retailing Institutions

In the early 1950s, when the Japanese economy again reached its prewar level, free operations resumed in the retailing sector. Department stores took the lead and new retailing institutions that were mass-merchandise-oriented and chain-operated emerged from the 1960s onward; these were supermarkets, speciality stores and installment-plan department stores.

The most important and immediate force prompting the emergence of new large-scale retailing institutions in Japan was the rapid change in the retail environment. The dynamic growth of the postwar Japanese economy created a new society, different from that

before the war. Japan's gross national product increased rapidly, and between the early 1950s and the early 1970s the annual real growth rate averaged around 10 percent.[24] In comparison with an annual average real growth rate in the prewar period of around 3 percent, postwar economic growth was remarkable.[25]

This rapid economic growth brought about structural changes in the Japanese economy. A particularly noteworthy phase was the development of the consumer durables industry and the entry of large-scale firms into this field. As the manufacturing industries grew, so too did the pace of urbanization. In 1955 over 50 percent of Japan's entire population of 93 million lived in cities, and in 1975 the urban population accounted for 75 percent of the entire population of 111 million. Furthermore, the concentration of population in big cities and their satellite towns is very high in Japan. In 1975 two out of every ten people lived in cities of one million or more, and four out of ten lived in cities of 250,000 or more.[26]

The standard of living rose and the mode of living changed with the rapid economic growth, the evolution of heavy and chemical industries, and the trend to urbanization. Per capita income increased from ¥81,797 in 1955 to ¥265,951 in 1965 and to ¥1,148,034 in 1975. In this same period, real private consumption expenditure also rose from ¥120,319 to ¥242,485 to ¥449,341. Japan also equalized the national income distribution. Changes in the mode of living appeared as a decrease in Engel's coefficient on the one hand, and an increase in expenditure on such things as culture and entertainment on the other. In the late 1960s the percentage increase of the latter rose considerably and the mode of living was diversified.[27] Westernized lifestyles permeated both cities and rural areas, which meant changes in the Japanese value system. In addition to these basic factors, changes in the labor market, popularization of higher education, internationalization and the development of a mass media greatly changed the retail environment.

The Japanese retailing structure had the following features in the mid-1960s, as compared with the United States and Britain. First, the relative importance of chain stores was less than that of department stores in the large-scale retailing sector. Second, small-scale retail outlets accounted for a higher proportion of total retail

establishments. Their organization was low, and they showed a trend to increase in contrast with a decrease in other countries.[28] Yet the Japanese retailing structure changed with the growth of new large-scale retailing institutions that emerged because of the social changes from the late 1950s onward. The Japanese retailing sector, as a result, diversified into department stores, supermarket chains, speciality stores, installment-plan department stores and independent retailers (some organized by voluntary chains). In addition, consumer and agricultural cooperatives entered into the mass merchandising field.

It was the department stores and supermarket chains that carried out the leading role in the postwar retailing sector. In the 1970s supermarket chains replaced department stores as the leaders in the retailing sector. Supermarkets based on the self-service and chain-store systems have grown, stressing high volume, low margin, high turnover and limited service. The number of self-service stores increased rapidly from 492 in 1958 to 1,337 in 1960, 4,790 in 1966, 9,403 in 1970, 10,635 in 1972, 12,034 in 1974 and 14,543 in 1976. By 1972 self-service stores accounted for 8.7 percent of the total retail sales, exceeding the share of department stores (8.4 percent).[29] There were, in 1960, only 19 retailing firms whose annual sales volume exceeded ¥6 billion; all of them were department stores. However, by 1970 the number of retailing firms with this same annual sales volume reached 101. Among these firms were 47 department stores, 38 supermarkets, 4 installment-plan department stores and 12 speciality stores.[30] Thus, in a decade or so the emerging large-scale retailing institutions had become a dominant force in the Japanese retailing sector. The following is a review of the postwar evolution of Japanese retailing industries with emphasis on department stores and supermarket chains.

The department stores reached their prewar level in the early 1950s.[31] Thereafter, they rapidly expanded their sales volume and accounted for nearly 10 percent of the total retail sales by around 1960. Department stores during this period tended increasingly to be located in subcenters of large cities and at terminal stations of railroad lines, and an increasing number were local department stores. In terms of merchandise, groceries and household articles

increased, while clothing decreased in contrast with the prewar period.[32] During the 1950s the department stores grew with their popularization. As a result, a second Department Store Law was enacted in 1956 as the department stores began to have a strong influence on small retailers. It regulated their operations and placed some restrictions on their future growth.

A typical example that shows the growth of department stores in the 1950s is Isetan. It moved from Kanda to Shinjuku in 1937 and grew rapidly, taking advantage of the geographic shift of population. With the development of Shinjuku as the subcenter of Tokyo, the firm took the one-store principle and developed an aggressive merchandising strategy. It took the initiative in exploiting the youth market, aiming its appeal at the young as well as making efforts to develop original product lines and provide parking facilities. At the same time, the firm insisted on cash transactions.[33]

As department stores grew, innovative retailers appeared who introduced and put into practice new retailing know-how from the United States. The first innovation that they carried out was the adoption of self-service selling techniques. They intended to achieve a large sales volume by reducing prices and stressing large volume, self-service purchasing. The first store operating on a self-service basis was Kinokuniya, which opened at Aoyama in Tokyo in 1953. Although self-service spread to a variety of retailers, it was necessary to adopt modern business administrative systems for the promotion of lower prices and bigger volume of sales.

Between the late 1950s and the early 1960s a definite movement toward the establishment of a new type of large-scale retailing institution based on self-service and chain-store systems began. At the same time, a group of innovative marketers and a few department stores managed by private railroad firms quickly emerged and created a new type of retailing institution. The former include Daiei, Okadaya (a forerunner of Jusco), Izumiya, Ito-Yokado, Nichii, who are the representative supermarket chains at present, while the latter are Toyoko Store (a forerunner of Tokyu) and Seiyu stores. In this period some big trading firms and local department stores also entered into this field.

The greatest innovation in the postwar retailing sector was the

emergence of supermarket chains. They succeeded as price-appeal retailers and grew to be full-scale mass merchandisers. Daiei is a typical case: it began in 1957 when Isao Nakauchi, a wholesaler dealing in pharmaceuticals, opened the store, selling such merchandise as cosmetics, canned and bottled groceries and relishes. From 1958 on Daiei began to set up chains and broaden its lines of merchandise, establishing discount retailing to compete with the existing distribution organizations. By 1962 Daiei had six stores with an annual sales volume of ¥10 billion, 12,000 employees, and sales space of 11,550 square meters. The firm set up its head office at Nishinomiya in 1963 and laid the groundwork for future rapid growth.[34]

The number of supermarkets increased rapidly in the late 1950s, but many went bankrupt during the 1965 recession. They experienced another period of rapid growth with the development of the chain-store system during the late 1960s. Branch stores in particular increased rapidly and at the same time grew larger to provide for the influx of foreign capital into the Japanese market with the liberalization of capital transactions. Also, in addition to such lines of merchandise as processed foodstuffs, perishable foods and clothing, they began to carry durable goods at the end of the 1960s. Thus, supermarket chains had taken a firm hold in the Japanese retailing sector by 1970.

Japanese supermarket chains can be categorized into three major types by the different composition of their merchandise. The first type is those that sell mainly food and related products. The second is made up of those whose principal merchandise is clothing and related products. The third consists of those that have well-balanced lines of merchandise, including clothing, cosmetics, household items, and home appliances. The supermarket chains of the third type, or general merchandise stores, achieved a notable growth. Although they are called "super chains" in Japan, this unique type of retailer emerged because supermarkets, chain stores and discount stores that had grown stage by stage in the United States were introduced in Japan at the same time and on a wide basis.[35]

Supermarket chains competed intensely in the 1970s, and as a result, mergers and affiliations began to occur among them.

The first large merger was the establishment of Jusco in 1968 through the combination of three regional chains. Furthermore, not only mergers and affiliations among supermarket chains but also a variety of affiliations between supermarket chains and big trading companies began. Also, from the mid-1970s prominent supermarket chains actively spread to provincial cities and moved towards a formation of networks of national chains. This reflected the fact that metropolitan and provincial markets were becoming the same in character.

As a result of the mergers, the trend toward concentration among larger supermarket chains grew. Supermarket chains then changed their policies and strategies. In terms of the composition of merchandise, the range of clothing, durable consumer goods and leisure articles increased as the stores grew larger. Stores also began to diversify into such retailing industries as speciality stores and convenience stores, into such fields as shopping center development and real estate, and into such leisure-related industries as restaurants and amusement centers.

Supermarket chains continued to struggle with large manufacturers over the price-setting process, and as supermarket chains expanded their lines of merchandise, the tension between them and manufacturers increased. Supermarket chains experienced difficulty at the beginning in buying large manufacturers' products. However, when they had reached the point at which the large manufacturers could not ignore their sales, supermarket chains acted with considerable freedom with regard to price setting. Furthermore, some of them introduced private brands thus increasing their absolute trading volume. When supermarket chains worked with large manufacturers, however, for the development of private brand merchandise, they were given a certain criterion for floor price by the manufacturers. Although supermarket chains also adopted a "dual brand" policy where merchandise bore both the manufacturers' and the retailers' brand names, it was considered a kind of compromise. Some of them began to go a step further by advancing into manufacturing in order to break down this limitation. Nevertheless, it can generally be said that large manufacturers still have the initiative in price setting.

Two types of large-scale retailing institutions, chain-operated, installment-plan department stores and speciality stores, grew with the supermarket chains. The installment-plan department store is a unique retailing institution that specializes in installment credit sales. There are four leading companies in this field. In the prewar period when consumer financing was rudimentary and consumer use of future payment systems was not common, a considerable number of stores were already selling merchandise on installment credit. Some of them set up a new type of installment-plan department store. These grew with the adoption of the chain-store system, the advance into the youth market, and the application of merchandising strategy and advertising adapted to the rising middle class.

A variety of speciality stores also grew to become large-scale retailing institutions with the adoption of the chain-store system. Among them are retailers dealing in a vast volume of standard items and in quality articles or fashionable goods. The former includes electric home appliances, books and pharmaceuticals and the latter includes clothing, boots and shoes. Chains of speciality stores also emerged and grew in such fields as furniture, cameras, watches, precious metals, jewels and glasses.

Department stores, which depended on traditional methods of operation, were slow to respond to the changing environment. As a result, they could not but stand on the defensive with the rapid growth of the mass merchandiser. Major department stores, however, aggressively adopted new policies and strategies to meet the changing conditions. On the one hand, they entered into supermarket operations by setting up subsidiaries, and built permanent self-service corners in their stores on the other. From the mid-1960s they began to expand and improve their main stores, and at the same time shifted to multistore operations by setting up branch stores in suburban areas and provincial cities. They formed cooperative buying groups and worked to develop high-quality, original merchandise lines and also to sell under private brand names. Furthermore, they actively promoted diversification in line with the development of shopping centers, the formation of speciality store chains, the adoption of selling through catalogues by close

ties with foreign retailers, and the entry into real estate and leisure-related industries.

As a result of the adoption of these policies, department stores have enjoyed steady development. Their relative importance in the Japanese retailing sector has nevertheless been declining. Although most large department stores entered into supermarket operations by 1970, almost all of them except some "terminal station department stores" could neither adopt new selling and management techniques nor succeed in such operations. Local department stores with fewer managerial resources, in particular, faced a crisis as large department stores, supermarket chains and other mass merchandisers expanded their networks.

New factors worked against the growth of large-scale retailing institutions. One of these was the rise of cooperative department stores, cooperative supermarkets, and voluntary chains organized by small and medium-sized retailers. Another was the introduction of supermarkets operated by consumer and agricultural cooperatives, and franchised chains in the 1970s.

A movement to organize small retailers into cooperatives began through the policy of the Ministry of International Trade and Industry (MITI) in the early 1960s. From the mid-1960s, MITI took particular interest in the development of voluntary chains. In 1970 there were 64 wholesaler-sponsored chains and 55 retailer-sponsored chains (cooperative chains) that belonged to the Japanese Voluntary Chain Association, the national association of voluntary chains; in 1975, there were 62 wholesaler-sponsored chains and 75 retailer-sponsored chains.[36] The latter increased rapidly during this period. Voluntary chains had a total sales volume of some ¥1,000 billion, which accounted for about 10 percent of the total retail sales. There were six voluntary chains whose annual total sales exceeded ¥600 billion.[37] They had, however, some unsettled problems related to a limited managerial ability to take advantage of economies of scale.

Consumer cooperatives accounted for about one percent of the total retail sales by 1970. One of them, the Nada Kobe supermarket chain, comprised fifty-five stores, and its total annual sales were around ¥123 billion. Consumer cooperatives became especially

active through the 1970s rise of consumerism, but were subsequently regulated by the Consumer Cooperative Act.[38]

Agricultural cooperatives also entered into supermarket operations to supply a variety of items to farming households. In particular, they have set up full-scale supermarket chains (Co-ops) in various places since 1973. These operations are regulated by the Agricultural Cooperatives Law.[39]

The franchise system was introduced by firms in various fields in the 1960s and has spread rapidly since the end of that decade. It has been estimated that franchise businesses had over 100 individuals with around 15,000 franchise shops and that their total sales volume exceeded ¥100 billion in 1972.[40] The main sectors to adopt the franchise system were restaurants and groceries. In 1976 there were 301 people with 35,475 franchise shops, with sales of ¥1,800 billion.[41] About half of these were restaurants, while clothing stores, supermarkets and convenience stores were also relatively numerous. The franchise system that was introduced into Japan was based on the American model, but modified to give more emphasis to traditional personal relations than to contractual relations.[42]

The Japanese retailing industry diversified considerably and changed structurally in the 1970s. The most fundamental change was the growth of supermarket chains, which were supported by the growing middle class. Initially the government did not regulate their development because of the need for modernizing the distribution sector and for strengthening its international competitive ability, but as their influence on other retailers increased some form of regulation was demanded by small retailers and department stores. The department stores pointed out that although they were of similar scale supermarkets avoided the regulations of the Department Store Law by setting up different corporations on every floor. The Large Scale Retailer Act was thus enacted in 1973 to protect small retailers and consumers and to promote the modernization of the distribution sector. It closed all loopholes so that every large-scale retailer became subject to regulation, also alleviating problems arising from conflicts of interest.

As a result of this Act, the Japanese retailing industry entered a

new phase in which competition among large-scale retailing institutions increased and multiform types of retailing institutions emerged.

Conclusion

Needless to say, the development of retailing is strongly influenced by the economic, social and cultural environment and the growth of the Japanese retailing industry has, therefore, followed the changing pattern of development of its economy and society. The Japanese retailing industry started to modernize at the time of the Meiji Restoration (1868) using the distribution system built in the Tokugawa era as its basis. Although modernization was slow in the prewar period, there were many attempts at innovation. While the industry did not grow rapidly or change structurally until the postwar period, especially after the 1960s, its ability to adapt itself had already been shown in the prewar period. It is important to note that throughout the history of Japanese retailing many innovations were made by existing retailers, because government policy was primarily geared towards assisting large-scale manufacturing industries and until recently paid no attention to the distribution sector. Of course, there were some social policies to help small merchants.

The new types and techniques that emerged in the Japanese retailing sector were almost all introduced with foreign, particularly American, models as their basis. However, if foreign techniques and institutions could be introduced successfully to a sector powerfully affected by cultural conditions, the process implies not a simple imitation, but an adaptation to the new environment. Japanese retailers were quite successful in modifying foreign techniques and institutions. Department stores which emerged in the early 1900s have grown into representative retailing institutions in the cities and are institutions offering not only shopping comfort but also cultural facilities. Japanese supermarket chains, which grew rapidly in the postwar period, took up and reworked different types and techniques of retailing introduced from foreign countries and, after an experimental period of trial and error, established themselves.

Modernization in the postwar retailing industry has advanced with the growth of large-scale retailing institutions based on mass production in manufacturing and an orientation towards mass demand and materialistic consumption by consumers.[43] Although larger retailers and more multiform types of retailing emerged through the distribution revolution, the structural characteristics of Japanese society certainly affected their development, as well as that of other retailers.

The growth of new types of large-scale retailing institutions gave rise to severe competition not only among the same type but also among different types of retailers. As a result, individual characteristics became blurred and the operations of the large-scale retailing firms tended to resemble each other. Although they have expanded and adapted themselves to social changes, the conflict between large-scale retailers and large oligopolistic manufacturers over distribution initiative has yet to be solved.

Notes

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Guest Commentary

The Wheel of Retailing: Past and Future

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Introduction

Thirty years ago Stanley Hollander (1960) challenged Malcolm McNair's (1958) famous contention that new forms of retailing commence as cut-price, no-frills, narrow-margin operations that gradually trade up. Since then, the wheel of retailing theory has generated an enormous amount of academic debate, and not a little deprecation. It has been castigated for having "limited clarity" (Savitt 1988), being "vaguely conceived" (Gripsrud 1986), and for failing to "meet the criteria for formal theory" (Hirschman and Stampfl 1980). Markin and Duncan (1981), moreover, conclude that it is "a questionable theory of institutional change," and D'Amico (1983) has argued, in an evocative turn of phrase, that it is "time for the wheel of retailing to roll off into the sunset."

Before consigning the wheel to the conceptual equivalent of Boot Hill, however, it may be prudent in this, the thirtieth anniversary of Hollander's classic critique, to reflect briefly upon the history of the wheel theory and the future of this concept. The wheel, after all, is one of the few theories that our discipline can claim to have originated (Sheth et al. 1988), and the case for the defense deserves to be heard. It is my belief that far from "receiving more credibility than it probably deserves" (Savitt 1989), the wheel of retailing is a great achievement in the study of marketing, one that "should be nurtured and developed rather than abandoned for borrowed concepts from economics, psychology, or sociology" (Sheth et al. 1988).

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Past Imperfect

In the process of intellectualization that has characterized the history of the wheel of retailing, one fundamental point is often overlooked: *it describes a frequently observed phenomenon*. A substantial number of retailing institutions in the United States and other developed countries do appear to have evolved in the manner described by the wheel (see Brown 1988). Indeed, Gist (1971) maintains that most of the well known exceptions to the wheel—automatic vending, branch department stores, etc.—are insufficiently important to warrant institutional status, and hence the theory cannot be expected to apply. Although such a contention invites the charge of circular reasoning, it also serves to emphasize the fact that the evolution of some of the most prominent retailing institutions adheres, in large measure, to the wheel pattern.

Another often overlooked attribute is the pedagogic value of the wheel. As an educational tool, it is simple, easily remembered, and contains several important lessons for students of retailing. According to Dickinson (1988), these include: first, that high prices may provide an umbrella under which discounters can flourish; second, that management must be eternally vigilant on costs, as failure to do so can destroy competititve advantage; third, that new and unexpected forms of competition will inevitably arise and prove difficult to respond to; and fourth, that success in retailing is ephemeral and contains the seeds of eventual failure.

More fundamentally perhaps, in a discipline that is preoccupied with the present and its ability to predict the future with a degree of confidence, the wheel of retailing is one of the few marketing concepts with a sense of the past (Fullerton 1987; Morello 1989). It has been argued that the wheel theory itself is ahistorical—the antithesis of historical research—and that it encourages researchers to interpret the past in a selective and distorted fashion (e.g., Kumcu 1987). Such criticisms, however, ignore the fact that historical study is inherently selective, both in its assembly of evidence and method of interpretation (Atkinson 1978; Tosh 1984). And they presuppose a single model of historical explanation, which is no more true of history than it is of marketing. A variety of historical philosophies exist: including positivist, idealist, Marxist and cyclical (Bebbington 1979).

The wheel, however, is more than just a partially substantiated representation of retail institutional change, a useful teaching aid, or an ahistoric discipline's nod to the past. Its conceptual underpinnings are elemental. The notion of recurrence (and cycles of change) is discernible in many academic disciplines including economics, political science, geog-

raphy, sociology, regional science, anthropology, theology, geology, astro-physics, philosophy of science, and history itself.

The cyclical conceptualization of time ("time's cycle"), in addition, has received more than a modicum of support from some of the giants of Western philosophy—Nietzsche, Hegel, Lasaulx, Vico, Machiavelli, Polybius, Plato, etc.—not to mention its total dominance of non-Western traditions of thought (Trompf 1979; Whitrow 1988). True, the linear view of time ("time's arrow") may dominate Judeo-Christian philosophy, (Bury 1960; Gould 1987), but alternative conjectures of change and the nature of time retain a powerful almost primordial appeal, not least for the retailing community. Who, among us, has not heard the time-worn retailers' refrain, "this business goes in cycles" or "there's nothing new in retailing"?

Besides its academic and philosophical pedigree, the wheel of retailing owes much of its appeal to the fact that it is a singularly vivid metaphor. And metaphorical thinking is central to the process of theory articulation and development and to our understanding of the world itself (Kuhn 1979; Lakoff and Johnson 1980; Cooper 1986). However, as a consequence of the dominance of logical positivism, which considers metaphor to be "deviant and parasitic" (Ortony 1979), marketers have been slow to appreciate the significance of figurative modes of thought. By the same token, the recent reduction in the pre-eminence of positivism and the advocation of alternative philosophical perspectives (e.g., Hirschman 1986; Anderson 1986) has led to a growing awareness of marketing metaphors, of which the wheel is a particularly compelling example (Rosenberg 1984; Arndt 1985). Not only does it contain overtones of the Graeco-Roman wheel of fortune, especially in the implication that the managerial sloth of the maturity phase is a harbinger of decline, but it also manages—remarkably—to *integrate* the notions of recurrence (time's cycle) and progression (time's arrow). This, according to Gould (1987), is the most powerful form of temporal metaphor, or, as Arnold Toynbee (1959) once put it when discussing the cyclical and linear modes of historical explanation, "it may be that the two views are not fundamentally irreconcilable. After all, if a vehicle is to move forward . . . it must be borne along on wheels that turn monotonously round and round."

Future Imperative

Given its reliance upon an ancient and powerful metaphor, it is easy to understand why the wheel theory continues—and will perhaps forever

continue—to bestride retailing research. To the discomfiture of its manifold detractors, the concept periodically surfaces in the mainstream marketing journals. It is commonplace in the opening chapters of most retailing textbooks, and hardly a conference season goes by without some scholarly cogitation on the evolution of retailing institutions. In fact, a recent analysis of retailing thought (over)stated that the wheel and its derivatives stand "as the most popular topic area in the entire marketing literature" (Savitt 1989).

Set against its undoubted strengths and perennial appeal, the wheel theory suffers from several significant shortcomings, most notably a lack of universality. As Hollander (1960) pointed out in his original critique, the low cost-trading up pattern does not apply to every US retailing institution nor to the experiences of the developing world. Furthermore, the theory only refers to a single aspect of change, the price-quality continuum; thus it ignores other equally dynamic dimensions of retailing—merchandise assortments, store size, and so on.

Faced with this evidence of its lack of comprehensiveness, proponents of the wheel might be tempted to retort that few, if any, marketing theories are complete representations of the phenomena they purport to explain. However, it is arguable that, as with most scientific advances (Kuhn 1970; Feyerabend 1988), it is this very lack of universality that acts as a stimulus to subsequent research activity. In other words, all of the ensuing attempts to identify the causes of the wheel pattern, to apply the concept in a wide range of geographical contexts, and to develop alternative conceptualizations of change, stem directly from the lacunae left by the original model.

Yet, despite the wheel's heuristic significance and the voluminous literature that it has generated, the concept still remains unproven. Too many of the contributors to this conceptual genre have preferred to devote their energies to esoteric elaborations of the model rather than to empirical investigations of its validity. The supporting "evidence," moreover, is often little more than casual observation or idle speculation. It should also be pointed out however, that much of the criticism of the wheel is equally anecdotal and that some widely cited "refutations" are based upon decidedly unstable foundations. Goldman (1975), for instance, drew much of his evidence from the history of a single department store and Savitt's (1984) attempt at quantification, while interesting, addressed issues that are not central to the wheel theory.

It is fair, nonetheless, to conclude that much of the research on retail change has been characterized by an absence of systematic study (Savitt

1989). With some noteworthy exceptions (e.g. Martenson 1981; Bucklin 1983), the bulk of the literature has been descriptive rather than analytical, though this should be regarded more as an opportunity for further research activity than a condemnation of past practice. In fact, one thing is clear from the history of the wheel of retailing—more, and more detailed, research is necessary.

Conclusion

The wheel, in sum, is not likely to be rolling off into the metaphorical sunset. The concept may have been deflated at times, but it has not yet been punctured. Some of its former customers may have succumbed to the attraction of imported models, but the wheel has not yet lost its grip upon the imaginations of marketing scholars. Indeed, despite its thirty-year history, the theory remains in virtual showroom condition. Contrary to the contention of some academics, the wheel does not need to be changed, nor does it require retreading, rebalancing, or realignment. In my opinion, it needs to be road-tested more often.

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C
Department Stores

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The Department Store, Its Past and Its Future: A Review Article

MERCHANT PRINCES: AN INTIMATE HISTORY OF JEWISH FAMILIES WHO BUILT GREAT DEPARTMENT STORES. By Leon Harris. New York, Harper and Row, 1979. Pp. xx +411. $12.95. THE GRAND EMPORIUMS: THE ILLUSTRATED HISTORY OF AMERICA'S GREAT DEPARTMENT STORES. By Robert Hendrickson. New York, Stein and Day, 1979. Pp. viii +488. $14.95. SEARS, ROEBUCK, U.S.A.: THE GREAT AMERICAN CATALOG STORE AND HOW IT GREW. By Gordon L. Weil. New York, Stein and Day, 1977. Pp. xiv. +277. $10.95. SHOPPING IN STYLE: LONDON FROM THE RESTORATION TO EDWARDIAN ELEGANCE. By Alison Adburgham. London, Thames and Hudson, 1979. Pp. 192. $14.95.

Retailing has never found a comfortable niche in business historiography. There are few specialists in this field, and almost as few monographs. Both the availability of evidence and the nature of business history itself have contributed to this situation. Unlike the railroad or steel industries, for example, retailing is composed of tens of thousands of individual, unconnected, and often ephemeral units, about which evidence is difficult, if not impossible, to collect. Moreover, the field of business history has, as I will elaborate, been too narrow in its approach to retailing.

In this country the academic study of retailing history has so far been confined to the area most accessible to research—large individual firms. In this category are biographies of Sears, Roebuck, Spiegel, Inc., Macy's, Marshall Field's, and Rich's. Boris Emmet and John E. Jeuck's *Catalogues and Counters: A History of Sears, Roebuck and Company*, and Ralph Hower's *History of Macy's of New York 1858–1919: Chapter's in the Evolution of the Department Store* are splendid studies that draw from a wide range of sources, and by referring to trends and events outside the immediate scope of their subjects, present a well-rounded view of large scale retailing during their periods. The books on Spiegel, Inc., Field's, and Rich's are less successful because they are more insular in their treatment. H.

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Pasdermadjian's *The Department Store: Its Origins, Evolution, and Economics*, published in England, approaches the subject collectively and places it in its international context. While an additional store biography might fill in a few empty corners, the basic outline of department-store and mail-order-firm history has been adequately sketched. A full scholarly history of large retail chains like F.W. Woolworth or The Atlantic and Pacific Tea Company would be valuable. Godfrey M. Lebhar's study of chain stores, which is a thorough but biased account written by an insider, could also be improved upon.[1] The rationalization of salesmanship at the beginning of this century is a development that affected almost all forms of retailing. Trade journals, textbooks, and schools of salesmanship provide an ample variety of sources for research about that subject.

A much more prolific tradition of popular literature complements the above academic histories. Shopping is a part of our every-day experience, and the stores we patronize become a familiar part of our lives. A particular store can be, like our home town baseball team, a civic institution: we follow its advertising in the daily newspapers, and we are interested in its every peculiarity and nuance. To the average person, large department stores in particular have long been more than business enterprises. The author of a book surveying *Home Life in America* in 1910 noted: "I have yet to meet the woman from Chicago who will not remark, after scant preliminaries of conversation, 'Of course, you've seen our Marshall Field's Store?' and on your enthusiastic endorsement of this wonder of wonders, or your confession of dark ignorance, are you judged discerning or benighted, for this great store is to the Chicago woman the epitome of her city's greatness."[2] Similarly, Alison Adburgham tells us, in her book reviewed below, that soon after Selfridge's was opened in London in 1909, it became a tourist attraction to equal Westminster Abbey or the Tower of London.

Most major retail establishments have been the subject of at least one biography. With few exceptions the authors of these popular books assume the attitude of wide-eyed tourists; "what wonderful institutions," they seem to be saying about these stores. Titles like *The Romance of Montgomery Ward and Co.*, *The Romance of a Great*

[1] Boris Emmet and John E. Jeuck, *Catalogues and Counters: A History of Sears, Roebuck and Company* (Chicago, 1950); Ralph Hower, *History of Macy's of New York 1858-1919: Chapters in the Evolution of the Department Store* (Cambridge, Mass., 1943); Orange A. Smalley and Frederick D. Sturdivant, *The Credit Merchants: A History of Spiegel, Inc.* (Carbondale and Edwardsville, Ill., 1973); Robert W. Twyman, *History of Marshall Field and Co., 1852-1906* (Philadelphia, 1954); Henry Givens Baker, *Rich's of Atlanta: The Story of a Store Since 1867* (Atlanta, 1953); H. Pasdermadjian, *The Department Store, Its Origins, Evolution, and Economics* (London, 1954); Godfrey M. Lebhar, *Chain Stores in America, 1859-1962* (New York, 1963).

[2] Katherine G. Busbey, *Home Life in America* (New York, 1910), 147.

Store (about Macy's), and *Five and Ten: The Fabulous Life of F.W. Woolworth*, indicate the typical slant. Some works in this genre, like Lloyd Wendt and Herman Kogan's *Give the Lady What She Wants: The Story of Marshall Field and Co.*, and Tom Mahoney's *The Great Merchants: The Stories of Twenty Famous Retail Operations and the People Who Made Them Great*, are well written and contain genuine insights. As a group, however, the books are uncritical about their material and seek merely to entertain.[3]

The three American works under review fall within this popular tradition. Leon Harris—although his book is in some ways the most scholarly—makes no apologies for his popular style: "Throughout this book," he states in the introduction, "I have been more interested in the revealing and probable anecdote than in the tiresome facts of unquestionable accuracy. I willingly confess my feeling, as expressed by the Abbé Raynal about Benjamin Franklin, that he would rather recount some men's stories than other men's truths (xvii)." As a member of a famous Dallas department store family, the author is also less than objective about his topic. *Merchant Princes: An Intimate History of Jewish Families Who Built Great Department Stores* is very nearly a retailer's *Our Crowd*, and it is as much (or as little) about department stores as Stephen Birmingham's book is about investment banking. The lifestyles of rich Jewish families and their place in American society dominate the text. Still, the work has an important point to make about the development of the department store. Mr. Harris emphasizes the importance of family, first in recruiting labor and capital, then in maintaining a store's image, not as just a profit-seeking business, but as a family institution. He corroborates the quoted remark about Marshall Field's. Department stores were urban landmarks; store owners were highly visible public figures, and they were influential citizens, not only as businessmen, but as fashion setters, charity leaders, and symbols of their city. As mergers and the growth of conglomerates eroded single-family control of department stores, they and their owners lost some of their special status as public institutions, and the stores became more like any other business.

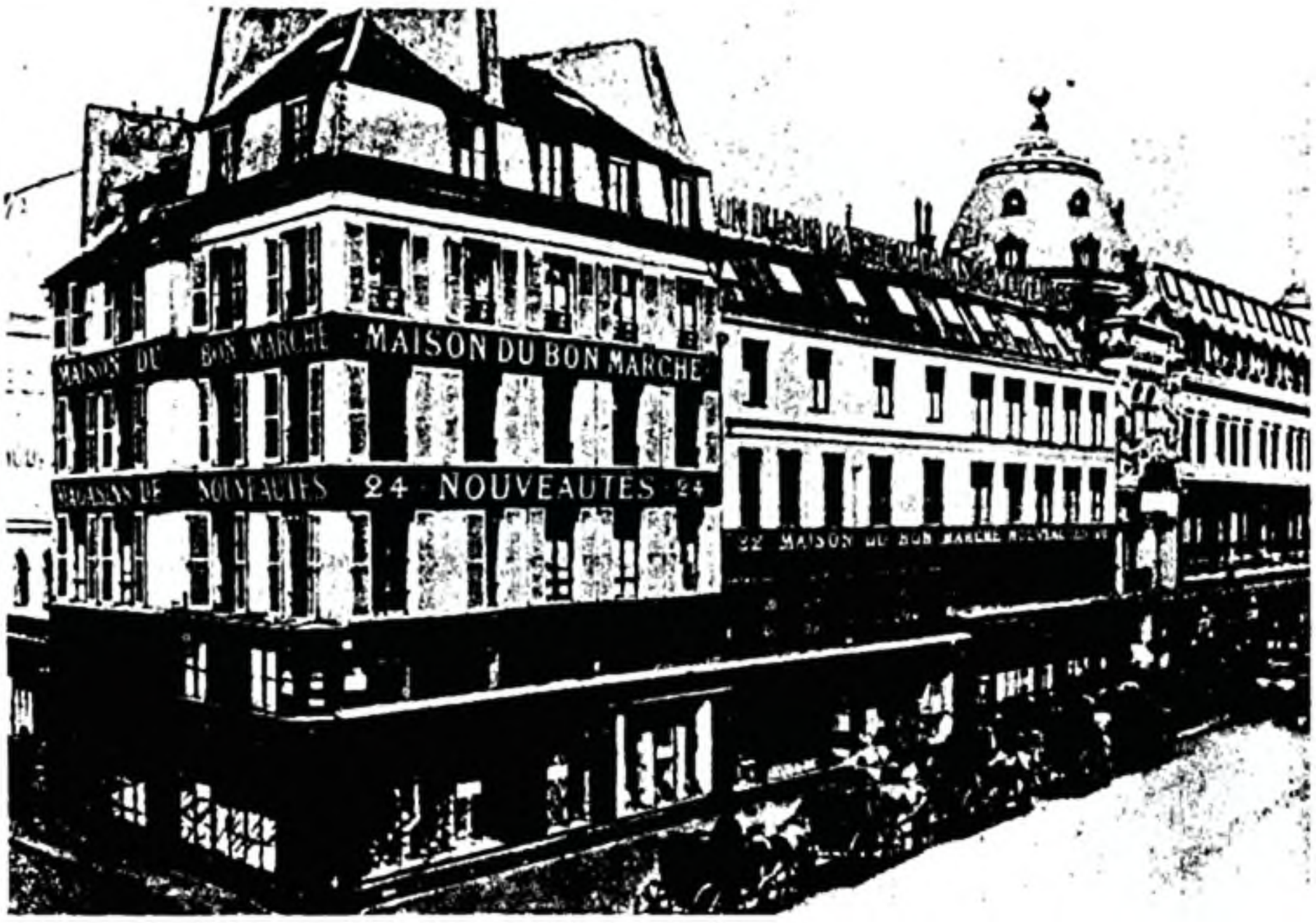
[3] W.L. Brann, *The Romance of Montgomery Ward and Company* (New York, 1929); Edward Hungerford, *The Romance of a Great Store* (New York, 1922); J.K. Winkler, *Five and Ten: The Fabulous Life of F.W. Woolworth* (New York, 1940); Lloyd Wendt and Herman Kogan, *Give the Lady What She Wants: The Story of Marshall Field and Co.* (Chicago, 1952): Tom Mahoney, *The Great Merchants: The Stories of Twenty Famous Retail Operations and the People Who Made Them Great* (New York, 1955). Another good popular history is John William Ferry, *A History of the Department Store* (New York, 1960). Other popular biographies can be found in the bibliographies of Pasdermadjian, 206–213; Ferry, 377–379; Daniel Boorstin, *The Americans, The Democratic Experience* (New York, 1973), 629–630; and Alison Adburgham, *Shops and Shopping: Where, and in What Manner the Well-Dressed Englishwoman Bought Her Clothes* (London, 1964), 288–290.

Robert Hendrickson's *Grand Emporiums: The Illustrated History of America's Great Department Stores* is more a reference work than a monograph. It chronicles the histories of some 140 firms, not only department stores, but discount houses, national chains, and specialty stores. A final chapter contains an almanac-like listing of stores according to size, wealth, number of employees, etc. The text itself is rather disappointing. Store histories, except for those of a dozen or so of the largest firms, run to only a paragraph or two, which list names and dates. There are no notes and no bibliography, but Mr. Hendrickson has derived most of his information from the many published sources listed above. Even a description of Macy's Thanksgiving Day Parade is apparently lifted from a *New Yorker* "Talk of the Town" piece.[4] (A sloppy editing job also resulted in a number of typographical errors.) The sections dealing with developments common to many stores—internal procedures and employee treatment—are the most interesting and informative, if not totally original. Numerous photographs and illustrations covering a hundred years of American retailing do make up for some of the book's deficiencies.

While Harris and Hendrickson look at a collection of retailers, Gordon L. Weil in *Sears, Roebuck, U.S.A.: The Great American Catalog Store and How it Grew* undertakes a more or less standard company biography. The book covers the founding and early growth of the firm; its extension into retail outlets; the beginnings of the Allstate Insurance Company; international business; sketches of the three leading figures in the company's history, Richard Sears, Julius Rosenwald, and Robert Wood; and present-day operations. The work has no pretensions toward scholarship, and is meant to inform a popular audience about the world's largest retail corporation. The author acknowledges his debt to *Catalogues and Counters*, and that debt is a great one; his research for the company's history before 1950 seems to have been limited to reading that book.

Certainly this institutional literature, both popular and scholarly, is not an adequate treatment of the entire field of American retailing history. However, among professional historical accounts, there is little else to choose from. Lewis Atherton examines a very small area in *The Southern Country Store, 1800–1860*, but we have no comprehensive study of retailing for any period. Harold Barger comes closest perhaps in his *Distribution's Place in the American Economy Since 1869*, but that work is a largely statistical analysis of

[4] See the *New Yorker* (December 12, 1977), 40–41.



Above, Aristide Boucicaut's Bon Marché in Paris, the first modern department store. *Below*, A. T. Stewart's "Cast Iron Palace" at Eighth and Broadway, New York, shortly after it had been taken over by John Wanamaker.

costs.[5] In addition to extensive studies we need to know about the emergence of retailing as a self-consciously discrete aspect of business in the first few decades of this century. Institutions like the New York University School of Retailing, founded in 1916, were in the vanguard of the professionalization of retailing education, while the National Retail Dry Goods Association, founded in 1911, was simultaneously promoting a positive image of retailing as a peculiarly service- and consumer-oriented arm of business.

But before historians can begin to take the full measure of retailing they must first free themselves from constricting notions of what business history ought to be. This journal's review of Robert Twyman's *History of Marshall Field and Co., 1852–1906* complained of the book's inattention to the world in which Field's did business.[6] The same might be said of the study of retailing history generally. Of all facets of business, retailing is the most sensitive to its social surroundings, and cannot be considered apart from them. Rather than start out by looking at the leading firms, we must begin by asking where, and in what manner, goods reached the ultimate consumer. The best histories of retailing would not be institutional history, but social and economic history broadly conceived. For the American past only popular studies of the pre-industrial economy, like Richardson Wright's *Hawkers and Walkers in Early America*, have approached the field in this way.[7] The most serious obstacle preventing this kind of history is, as mentioned, the lack or inaccessibility of evidence. But three British studies show that, even without complete or totally reliable data, important work can be done.

Dorothy Davis's *A History of Shopping*, David Alexander's *Retailing in England During the Industrial Revolution*, James B. Jefferys's *Retail Trading in Britain, 1850–1950* examine collectively the history of British retailing from the Middle Ages to the mid-twentieth century.[8] These three range from the fairly conventional—Jefferys's work tells us what kinds of stores there were, how many, how profitable, etc.—to the more adventuresome—Davis's book appeared in a series on social history, with Alexander's book somewhere in between. Sadly, Davis's study did not receive a review

[5] Lewis Atherton, *The Southern Country Store, 1800–1860* (Baton Rouge, LA, 1949): Harold Barger, *Distribution's Place in the American Economy Since 1869* (Princeton, N.J., 1955).

[6] Review by Elspeth Rostow, *Business History Review*, XXIX (June, 1955), 200.

[7] Richardson Wright, *Hawkers and Walkers in Early America* (New York, 1927). See also, J.R. Dolan, *The Yankee Peddlers of Early America* (New York, 1964).

[8] Dorothy Davis, *A History of Shopping* (London, 1966); David Alexander, *Retailing in England During the Industrial Revolution* (London, 1970); James B. Jefferys, *Retail Trading in Britain, 1850–1950* (Cambridge, 1955).

General Robert Wood (left) and Julius Rosenwald, who made Sears, Roebuck and Company a national retail institution, celebrating the sale of the ten millionth Allstate automobile tire in 1929.

in the *Business History Review*. All three, however, consider such broad and basic issues as how and why retailing evolved from intermittent fairs and markets to settled shops and stores; how and under what conditions the different classes purchased food in London; and what social factors make one kind of retail store more attractive than another for various consumer items. In other words, the authors look at retailing from the outside, from the point of view of the consumer, as well as from that of the seller. For this country and for different eras the questions would be different, but the method and approach must be the same.

The last book under review, Alison Adburgham's *Shopping in Style: London From the Restoration to Edwardian Elegance*, though popular (it has no central argument, pursues no single point at length, and is largely anecdotal), is superior to the three American books because it follows the path of the broader, scholarly British studies of retailing. This work, and the same author's earlier companion volume, *Shops and Shopping 1800–1914: Where, and in What Manner the Well-Dressed Englishwoman Bought Her Clothes*,[9] suggest many possibilities for the historical study of retailing. *Shopping in Style* is organized geographically; it traces London's retail growth through the development of that city's

[9] See Note 3.

residential and commercial districts. It is, then, a contribution to urban history—moreover, one with few parallels in the academic literature. In the chapter entitled "Nash's Regent Street Changes the Pattern of Shopping," we learn how that street was the first to be designed specifically as a shopping area, thus previewing the modern shopping center. Another section considers the effect, in the mid-nineteenth century, of improved public transportation on London's retail structure. In this regard the book's nearly 200 beautifully reproduced photographs, paintings, and illustrations are not just ornamentation; they truly supplement the text's descriptions of London. We are allowed to compare, for example, four views of Regent Street as it changed between 1848 and 1910.

Despite the boom in American urban history over the last fifteen or twenty years, we still know relatively little about retailing in large cities. Ms. Adburgham's books should provoke historians to ask a variety of questions about urban retailing. What were the relationships between the spatial patterns of cities and their retail structures? A comparative study of retail growth in two or more cities would surely be worthwhile. Popular histories (including Ms. Adburgham's), and to a certain extent scholarly ones as well, tend to concentrate on the more glamorous stores that serve the well-to-do. The lives and possessions of the rich exert a powerful attraction. Nevertheless, it is just as vital for historians to learn about establishments catering to the middle and lower classes. We could use a history of push carts. One large and significant unexplored area is the municipal public market. Once the leading retail source of foodstuffs, the market declined almost to the point of extinction by the end of the nineteenth century, then experienced a brief revival before and during World War I as a response to rising food prices. Only John Duffy, in his history of public health in New York City has tackled this subject, and for him it was a merely tangential concern. Thomas De Voe, a butcher by trade, wrote a remarkably complete history of New York's markets in the 1860s; this is a marvelous and neglected source of information.[10]

Shops and Shopping and *Shopping in Style* finally suggest the power of retail institutions to reveal important social and cultural patterns. The earlier work quotes Lord Melbourne in a letter to Queen Victoria: "Shopping is demonstrative." So keen an observer of society as Emile Zola was attracted to the department store's rich

[10] John Duffy, *A History of Public Health in New York City, 1625-1866* (New York, 1968), 420–426; Thomas DeVce, *The Market Book: A History of the Public Markets of the City of New York From Its First Settlement to the Present* (New York, 1862).

social implications.[11] Ms. Adburgham has made innovative use of such sources as letters, diaries, and novels to get at the social meaning of shopping. She makes the simple but important distinction between marketing, which was a practical matter and a duty of servants, and shopping, which was a form of entertainment for those who could afford servants. We also see a microcosm of social relations in the treatment of customers, whether in the exclusive shops of the eighteenth and early nineteenth centuries, or the great department stores of a later era.

Historians have just begun to treat retail stores as mirrors of society. In the third volume of his *Americans* trilogy Daniel Boorstin views the growth of department and chain stores as central to the substance of our contemporary world. But that book is based, for the most part, on secondary sources, and is really an invitation to further research. Two scholars have looked inside the department store for clues to the nature of our culture and society. Hugh D. Duncan briefly examines the social milieu of shopping to clarify our understanding of class distinctions in late-nineteenth-century America. Neil Harris has recently compared the display of goods in department stores to the display of art objects in museums in an attempt to discern the determinants of taste in American culture.[12] More studies of this type should be most fruitful. We can learn much not only from a study of department stores, but also from other branches of retailing, such as restaurants, about which virtually nothing of an historical nature has been written for this country.

Retailing is a wide open field for the daring and innovative historian. Those willing to take up the challenge of combining business history with social history will, I am sure, find it rewarding.

[11] *Shops and Shopping*, p. vi; See Zola's novel *Au Bonheur des Dames* in *Les Oeuvres Completes*, Vol. 12 (Paris, n.d.), and the notes he took about Paris department stores in that same volume, 467–480.

[12] Boorstin, 101–129; Hugh Dalziel Duncan, *Culture and Democracy: The Struggle for Form in Society and Architecture in Chicago and the Middle West During the Life and Times of Louis H. Sullivan* (Totowa, N.J., 1965), 113–131; Neil Harris, "Museums, Merchandising, and Popular Taste: The Struggle for Influence," in Ian M. Quimby, ed., *Material Culture and the Study of American Life* (New York, 1978), 141–174. A further contribution to this field appeared after the completion of this essay. See, Gunther Barth, *City People: The Rise of Modern City Culture in Nineteenth-Century America (New York, 1980), 110-147.*

[22]

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The Cinderella of Occupations: Managing the Work of Department Store Saleswomen, 1900–1940*

¶ *Of all forms of personal services supplied to business enterprise, that of sales workers has perhaps defied the application of "standard" management practices more than any other. Professor Benson shows that this generalization is especially applicable to female department store sales personnel, who were necessarily recruited chiefly from "lower" social classes whose members lacked education and refinement. Thus, regimentation and rote training seemed appropriate. On the other hand, selling style goods to sophisticated female customers involved elements not of a trade but an art, and an attitude of deference, which was not a common trait among working-class girls. Department store managers, almost exclusively male, failed to solve this paradox and, as Professor Benson relates, failed also to deal with the invisible solidarity of female sales persons.*

By the beginning of the twentieth century, the department store as Americans would know it until after World War II was a familiar feature of urban life. These giant emporiums, expanding rapidly after 1880, pursued policies distinctively different from their ancestors in wholesaling or small-scale specialized retailing. The dingy and cluttered store was eclipsed by a lavishly decorated palace of consumption, which not only presented goods in a well-organized and tempting way but also offered a variety of services and public accommodations. The simple newspaper announcement of goods for sale was replaced by aggressive and attractive display advertising. The one-price system put an end to the older custom of haggling between clerk and customer, and the free-entry policy replaced the habit of harassing customers until they bought something as the price of their escape. Finally, the male monopoly behind the counters

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yielded to a preponderance of females.[1] By 1900, department store managers were beginning to realize that these changes in practices and personnel had not automatically produced an effective selling force; by 1910, the effort to develop a distinctive style of department store selling had taken first place on their agendas. This task was both difficult and complex, involving the peculiar demands of retailing in itself with vexing issues of class and sex affecting American society as a whole.

Because most business history concentrates on manufacturing enterprises, it is useful to begin by comparing the factory to the store. In the most general sense, managers of both types of business had begun by 1900 to face the twin problems of production and consumption with a new self-consciousness and determination. The impact of the new style of management on a given enterprise varied according to its size, location, competitive position, and the personal inclinations of its executives. Yet, despite this unevenness, trade associations in major production and distribution fields developed and codified a new managerial wisdom which framed the problems, possibilities, and goals for each industry, shaping both the consciousness and the actions of its executives. In industry after industry, the ultimate prescription was a thoroughgoing process of rationalization, systematization, and closer control of all aspects of the business. The concerns of the conscientious manager ran the gamut from the most minute aspect of production to shaping a new ethic of consumption in the society at large.

Although thoughtful executives in both stores and factories agreed on the ultimate goal of rationalization, the differences in social reality within their firms meant that they faced very different problems in implementing the new ideas. For the factory executive, efforts to rationalize production and consumption were neatly compartmentalized. Within the factory, the problem was to motivate workers to produce more goods in less time and at less cost; outside its walls, the task was to encourage people to buy these goods more freely and with less concern for necessity. While industrial managers could thus run their factories with a single-minded concern for productivity, and leave the fabrication of demand to advertising

[1] Ralph M. Hower, "Urban Retailing 100 Years Ago," *Bulletin of the Business Historical Society*, 12 (December 1938), 91–101; Harry E. Resseguie, "Alexander Turney Stewart and the Development of the Department Store, 1823–1876," *Business History Review*, 39 (Autumn 1965), 301–322; "Filene Co-Operative Association," *The Echo*, 11 (October 9, 1913); "The One-Idea Clerk," *Dry Goods Economist*, 69 (July 24, 1915), 32; Robert H. Durbin, *Department Stores of Philadelphia* (Philadelphia, 1917), 5. I will use the masculine pronoun to refer to managers, and the feminine to refer to salespeople. The overwhelming majority of department store managers at decision-making levels were men; the overwhelming majority of salespeople were women.

executives and copywriters, department store managers enjoyed no such luxury.

The heart of their operations—the selling floor—brought workers and customers face to face, creating the problem of simultaneously encouraging efficiency in the former and leisurely consumption in the latter. The store's basic accounting unit, the sales transaction, was used to measure both the salesperson's effectiveness in selling and the customer's willingness to buy. At best, the impossibility of separating the two made the store executive's task far more complicated than that of the factory manager; at worst, it enmeshed him in a web of contradictions that grew out of his curious betwixt-and-between position. Retailers sought on the one hand to control and supervise their workers and their firms as closely as any of their factory counterparts: they acted like managers pure and simple. Yet they also wished to make a complex social statement that involved issues of class and sex, psychology and aspiration, identifying consumption with a life of style, respectability, and urbanity: they acted, to use Stuart Ewen's phrase, like captains of consciousness.[2]

From about 1900 to about 1940, the cornerstone of the retailer's effort to resolve this contradiction was what he called skilled or personal selling. Stripped to its essentials, skilled selling involved the use of trained salesclerks to increase both the size and number of sales transactions. It spoke to the problem of productivity by building more intensive sales efforts into the definition of skill, and to the problem of consumption by requiring the salesperson to appeal to customers' vanities of class and sex. Skilled selling, successfully implemented, would logically have resolved the department store manager's dilemma.

In reality, skilled selling did not solve the retailer's economic or social problems in any such neat way. In the broadest sense, department store managers were going against the grain of major twentieth-century trends in business management.[3] They hoped to foster skill in an era when the central tendency of management policy was to expand unskilled and semiskilled labor. They undertook to monitor that skill with the supervisory and accounting methods developed elsewhere to deskill and regiment workers. Even more, they attempted to harness skill in social interaction, a most

[2] Stuart Ewen, *Captains of Consciousness: Advertising and the Social Roots of the Consumer Culture* (New York, 1976).

[3] My understanding of these trends has been shaped in large part by Daniel Nelson, *Managers and Workers: Origins of the New Factory System in the United States* (Madison, Wisconsin, 1975); Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, Mass., 1977); and Harry Braverman, *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century* (New York, 1974).

unmanageable quality and one even less susceptible to control than manual skill. In the factory, manual skill could ultimately though not easily be taken into the hands of management, mental and manual work could be divorced, and skill separated from the social relations of the workplace. In the store, however, the skill of selling was intimately and organically bound up with the social relations of the selling floor and the work group; only when left in the hands of the workers could it have the desired effect on sales. Ultimately, store managers had an apples-and-oranges problem: they were trying to combine elements that grew out of fundamentally different systems.

The reasons why they found themselves in this untenable position become clear only in the context of the historical development of large-scale urban retailing. For present purposes, we can divide the history of the industry at about 1900, bearing in mind that department stores developed unevenly and eccentrically and that changes did not occur simultaneously across the country. By about that time, department stores had seized center stage in the central business districts of American cities. The range of goods they offered, the luxury and excitement of their ambiance, and the appeal of their merchandising methods succeeded in attracting large crowds. In the estimation of the stores' controllers, however, these crowds spent their money too infrequently or too thriftily; the public spectacle of the department store was commercially viable only if financed by high sales levels.

Selling was the bellwether function of the store; as one industry writer phrased it in 1915, "The selling force is the best place to start at when a general speeding-up of the entire organization is necessary or desired. And in view of the position of the salesforce as a motive power, increase of salesforce efficiency will stimulate all the other parts of the machinery."[4] No amount of cost-cutting efficiency behind the scenes could compensate for lackluster sales efforts, for only through skilled selling could the heavy burden of fixed costs for lavish public accommodations and "free" services such as delivery be materially lightened. Self-service was not an option in the minds of pre-World-War-II managers except in isolated instances; the culture of consumption rested on service and amenity, not on efficiency alone. Moreover, skilled selling was a response to the chronic problem that undermined attempts to rationalize retailing: the industry's built-in variability. The volume of customers and their willingness to buy varied according to the season of the year, the day of the week, and the hour of the day as well as with the weather and

[4] "Training in Sales by Suggestion Builds Efficiency," *Dry Goods Economist*, 69 (July 31, 1915), 31.

personal whim. Skilled salespeople would in theory maximize sales under all conditions and would respond resourcefully to changing opportunities and constraints.

During the first decade of the twentieth century, department store managers began to consider these questions with a new urgency. They shared with their factory colleagues the era's enthusiasm for efficiency, but the special demands of retailing sharpened their concern. Their tactics had solved one set of problems—the attraction of crowds—but had failed to touch another—the need to induce those crowds to buy more than they would from simple need or random impulse. Worried managers pinpointed the problem at the point of the sale and found a ready scapegoat in the "shopgirl," as the first generations of department store saleswomen were popularly dubbed with a mixture of scorn, condescension, and pity. Overworked and underpaid, they pleased neither their employers nor their customers.

An examination of industry and trade association periodicals, retail convention proceedings, and the store newspaper of the William Filene's Sons Company in Boston reveals that department store managers were deeply and persistently worried about the quality and behavior of their sales forces, and that they undertook extensive efforts to correct what they saw as salespeople's shortcomings. Although these sources do not trace the experience of any one firm with the thoroughness that a complete set of company records would, they do give a sense of the pervasiveness of managers' concern about their selling staffs. In stores large and small, in all parts of the country, retail executives redefined their expectations and treatment of their saleswomen. At national conventions, through personal contacts and local institutions such as Boards of Trade or the Research Bureau for Retail Training in Pittsburgh, and in the journals they discussed methods, traded experiences, testified to their successes and failures, and developed an industry-wide personnel stance. They did not of course speak with one voice, but what is striking about the sum of this literature is the notable agreement about basic goals and the shared conviction of the need to supplant the shopgirl with the skilled saleswoman.

The shopgirl was no accident; she was the direct result of management policies toward the salesforce. In the process of building, organizing, decorating, and systematizing the store, executives had given scant attention to the critical area of selling—the interaction across the counter. Believing on the one hand that selling as it had been practiced by men was an inborn knack, a

talent, a fine art, and convinced on the other hand that attractive goods presented in a luxurious environment would practically sell themselves, managers in the great era of department store expansion between 1880 and 1900 had easily convinced themselves that they needed only to staff the counters with neatly dressed, polite women who would sell mechanically and inoffensively. A statement attributed to A.T. Stewart, a pioneer in large-scale retailing in New York, summarized well the personnel theory of department store managers in the last decades of the nineteenth century. Gazing at the army of workers in his Astor Place "palace dry goods store," Stewart is supposed to have commented, "Not one of them has his discretion. They are simply machines working in a system that determines all their actions."[5] Convinced that all they needed were cogs on their wheels, department store managers wasted little time and energy on the development of their sales forces.

Stewart's view, and the inattention to the salesforce that it implied, came under sharp attack after the turn of the century. A perturbed industry observer summed up the difference between the old and new views on the subject: "As a rule, the salesforce grows up like Topsy. It is neither born nor made. No sensible attention is given to its creation nor to its training. The result speaks for itself more eloquently than any tongue can express. Every merchant should remember that his clerks are his personal representatives and that the public only know him, and pass their judgment upon him, from their CONTACT WITH HIS SALESFORCE."[6] The idea that the salesperson was the merchant's emissary to the public was the foundation of the emerging retail personnel wisdom. There was an element of respect for the salesperson in the new view, but there was also an element of fear—and both were aspects of the retailer's uneasy recognition of the alarming power of a group that he had earlier considered, when he had considered it at all, as a mannerly adjunct to the store's elaborate accounting systems. Once he faced the issue, he could not turn back from the realization that all his efforts in other aspects of store operation would go for naught if a customer intent on purchasing were offended or inefficiently served, if her desire to consume were not nurtured.

The "Shopgirl"

When department store managers focused their attention on the salesforce with a view to managing it as closely as they did the other

[5] Resseguie, "Alexander Turney Stewart," 314.
[6] "Train the Salespeople," *Dry Goods Economist*, 65 (December 3, 1910), 45.

parts of the store, two central factors shaped their actions. The selling personnel of the typical department store around 1900 were overwhelmingly working-class and overwhelmingly female. Class and sex were the critical issues in the store manager's attempt to develop a skilled salesforce, but they interacted in extremely complex ways, sometimes complementary and sometimes contradictory. Executives began by trying to change the class-based characteristics of their salespeople and by seeking to make use of their sex-based characteristics. In so doing, they unwittingly entered a maze of difficulties from which they never really extricated themselves.

The policies of late-nineteenth-century department store managers had built into their stores a class tension that troubled managers well into the middle of the twentieth. Their methods of attracting customers and their policies toward the salesforce conflicted sharply. Lavish stores and carriage-trade service enticed those who had the discretionary income to make the large purchases that were the stuff of department store profits. Although department stores ranged from the extremely exclusive to the popular-priced, it was the growing urban middle and upper classes whose trade managers most eagerly solicited, and whose cultural demands set the tone for the stores.[7] The *Dry Goods Economist*, a major trade periodical, editorialized on the subject:

> [C]loser contact with Old World manners has created in our opulent citizens a relish for subserviency on the part of those who attend upon them; and this tendency on the part of the newly rich is spreading even to those who do not possess the golden talisman which crooks so many knees. . . .
>
> More consideration for the customer on the part of the clerk will be insisted on. The "take-it-or-leave-it" attitude will be less and less tolerated. Here will be a greater recognition of those assistants who make sales in a quiet, dignified, respectful manner and with a minimum of friction.[8]

But department store selling was not attracting those who were of a mind to be "quiet, dignified, [and] respectful." The comparatively low pay, long hours, and difficult working conditions as well as the popular image of the tawdry shopgirl drove middle-class working women into other employment such as clerical work. Working-class saleswomen behaved in ways that were grounded in their own cultural background, but that offended their employers and customers alike. Contemporary portrayals of saleswomen frequently recall *Pygmalion* on a grand scale. Some resented the ingratitude of those who dared to be different from themselves: "Who will dare tell

[7] Hrant Pasdermadjian, *The Department Store: Its Origins, Evolution, and Economics* (London, 1954), 21.

[8] "Retail Store Manners," *Dry Goods Economist*, 64 (January 8, 1910), 43–44.

you and me what a green, undisciplined, untrained stubborn girl is worth; and can any thinking person claim that the merchants of this country owe her a living wage?"[9] Others condemned specific offenses against proper demeanor, particularly those involving language and dress. Technically ungrammatical but widely used colloquialisms and familiar forms of address appalled employers; one observer noted censoriously, "[T]he salespeople have become so forward as to call customers 'Dearie.' The use of such terms is a liberty which the woman of finer sensibilities quickly resents."[10] Dress also conveyed a powerful class-laden message: customers were displeased when "they are approached by an employee who is overdressed and who bears on her person marks of opulence which apparently do not accord with her position."[11] The social conflict that pervaded relations between saleswomen and customers was fundamentally of the store manager's own making: eager for the cheap labor of uneducated women, viewing selling as semi-automatic, setting his sights on an affluent clientele, he had created the problem for which he blamed his saleswomen.

While managers condemned clerks' class attributes out of hand, they found much to recommend in their gender characteristics, for sex was a unifying factor in the store. A journalist writing in 1910 captured the overwhelmingly female flavor of the department store:

> Buying and selling, serving and being served—women. On every floor, in every aisle, at every counter, women. . . . Down in the basement buying and selling bargains in marked-down summer frocks, women. Up under the roof, posting ledgers, auditing accounts, attending to all the complex bookkeeping of a great metropolitan store, women. Behind most of the counters on all the floors between, women. . . . Filling the aisles, passing and repassing, a constantly arriving and departing throng of shoppers, women. Simply a moving, seeking, hurrying mass of femininity, in the midst of which the occasional man shopper, man clerk, and man supervisor, looks lost and out of place.[12]

Probably not more than one of eight department store customers was a man; and it was a rare department store after 1900 that did not have a clear majority of female salespeople.[13]

[9] *The Survey*, 29 (March 15, 1913), 842.

[10] *Dry Goods Economist*, 64 (March 19, 1910), 48; see also, "Some Essentials in Salesmanship," *Dry Goods Economist*, 73 (September 27, 1919), 137; William Filene's Sons Company, *Salesmanship Standards* (Boston, 1924), 5.

[11] "Saleswomen's Appearance," *Dry Goods Economist*, 64 (November 20, 1909), 44.

[12] Rheta Childe Dorr, *What Eight Million Women Want* (Boston, 1910), 115–116.

[13] Kendall Banning, "Catching the Male Trade," *System*, 15 (May 1909), 485; "Ninety-Four Housewives Tell Why They Buy," *System*, 28 (November 1915), 481–489; "Why Women Buy," *System*, 28 (December 1915), 585–591; Archer Wall Douglas, "Why Don't More Women Trade With Me?", *System*, 32 (December 1917), 906–908; Zelie Leigh, "Shopping Round," *Atlantic Monthly*, 138 (August 1926), 200; Hower, "Urban Retailing," 93–94; Hower, *History of Macy's of New York, 1858–1919: Chapters in the Evolution of the Department Store* (Cambridge, Mass., 1943), 114, 193; Pasdermadjian, *The Department Store*, 21; Robert W. Twyman, *History of Marshall Field & Co., 1852–1906* (Philadelphia, 1954), 18–19, 69.

Certain aspects of women's culture dovetailed with managers' developing conceptions of what a skilled sales effort involved. Qualities that had for a century been encouraged in women—adeptness at manipulating people, sympathetic ways of responding to the needs of others, and familiarity with things domestic—fit nicely into a new view of selling. Managers urged saleswomen to transfer skills from the domestic to the commercial sphere, to treat their customers as "guests" in a store so designed as to make it a "supplement to the home."[14] Empathy and responsiveness constituted the irreducible core of selling skill; however definitions changed with fluctuations in the business cycle. twentieth-century selling always included the idea that the salesperson should be a lay psychoanalyst of the counter. A writer in 1911 urged, "Shop *with* the customer, not *at* her"; Macy's training director affirmed in 1940 that "interest in the customer's problems" was the major factor in selling success.[15]

More than individual "womanly" characteristics was involved; the emphasis on interaction resonated as well with the collective aspects of women's culture. Recent research in women's history has called attention to the existence of affective and supportive female networks. From Italian and Jewish women in close-knit immigrant communities in Providence, to middle-class women dispersed around the country, solidaristic female networks have been a persistent feature of women's experience over the last century or more.[16] They gave an important place to cooperative as opposed to competitive values, stressed the commonalities of female experience, and provided channels for the exchange of services and emotional support. As dimly as retail managers understood women's culture and its modes of functioning, in some unexamined way they defined selling skill in such a way as to reward women for being women, to give exchange value to their culture.[17]

[14] "A Creed," *Dry Goods Economist*, 68 (January 31, 1914), 69; G.W. Stoddard, "Giving a Store Home Surroundings," *System*, 15 (June 1909), 666.

[15] "Help the Customer Buy," *Dry Goods Economist*, 66 (December 9, 1911), 43; Orie W. Sherer, "Can Salesmanship Be Taught?", *Bulletin of the National Retail Dry Goods Association*, 22 (February 1940), 34.

[16] Carroll Smith-Rosenberg, "The Female World of Love and Ritual: Relations between Women in Nineteenth-Century America," *Signs*, 1 (Autumn 1975), 1-29; Judith E. Smith, "Remaking Their Lives: Italian and Jewish Immigrant, Family, Work, and Community in Providence, Rhode Island, 1900-1940," (unpublished doctoral dissertation, Brown University, 1980).

[17] By the first decade of the twentieth century, managers had already had an impressive demonstration of the functioning of these networks in the campaigns of the Women's Trade Union League and the National Consumers' League. Observing the working lives of saleswomen first-hand, an increasingly socially conscious American womanhood had become outraged at the contrast between the "real, inner truth" of the department store and the veneer of luxury it presented, and was demanding a broad range of changes in the lives of saleswomen and other working women. Pressed by campaigns for trade unions, protective legislation, and voluntary reforms, store managers could hardly have been unaware of the potential of female networks. For a brief discussion of these organizations, see Eleanor Flexner, *Century of Struggle: The Woman's Rights Movement in the United States* (New York, 1970), 207-209, 240-247.

Department store managers' attempts to use women's culture were less explicit and self-conscious than their efforts to suppress working-class culture. The men who dominated the upper levels of department store management were understandably more at home in discussing the issue of class than that of sex. Class was an attribute that they shared with their customers; to manipulate class-based culture in the store meant to make their working-class saleswomen act in a way that was less disruptive to social relations within the store. Sex, on the other hand, was an issue that divided managers from customers and saleswomen alike. To manipulate sex-based culture was problematic from the point of view of managers, since it meant trying to exploit a sphere that by definition remained closed to them.

Skilled Sellers

In elaborating their definition of skilled selling, department store managers rejected both the older ideal of the naturally gifted salesman and the then-current model of the passive, unskilled, order-taking saleswoman. Managers undertook to shape a whole new breed of clerks; no longer would they be content to take salespeople as they were, for good or for ill. The new skill could be codified and taught; in the words of a Chicago department store manager in 1910:

> There is no mystery in the art of salesmanship. The qualities required are born in every one, and only a reasonable amount of training is needed to bring these qualities to the surface and make them serviceable. . . .
>
> As I say, good salespeople are made. They make themselves. . . . The expression, "He is a born salesman" may have meant something twenty years ago before modern experience had analyzed all the little secrets of the art, but to-day no one with common sense, industry and a real desire to learn need fear to tackle the task of soon becoming a leader in the ranks of truly good salespeople.[18]

Most observers were more careful in asserting that the new skill would be under the control of managers; what was crucial was not that salespeople were self-made but rather that they be made by their superiors. As early as 1913, even a small-town retailer understood the importance of this point: "The success of salespeople is entirely the result of training, dependent entirely upon the opportunity for development and the result of the right working conditions. It lies within the power of every proprietor of every store, large or small, to

[18] "To Be Good Salesmen," *Dry Goods Economist*, 64 (February 26, 1910), 37.

re-create, re-construct, and re-organize the potential selling ability of his salespeople."[19]

As if confident of the ease of their task, department store managers began their efforts to create a new sales force with more careful supervision and elaborate rules. Rules prescribing efficient performance of work, courteous behavior, and proper demeanor proliferated in department stores in the early years of the twentieth century. But managers soon learned that "simple rules and enforcement won't work."[20] Similarly, early efforts at training salespersons focused almost exclusively on what was known as store system, or the proper use of forms and procedures for different types of sales. But the complex social dynamics of the selling floor demanded more than simple compliance with rules: it was at least as important how an item was sold as that it was sold at all.

The writer who asserted in 1913 that "The best salesperson . . . is *not necessarily* the one that *has the largest book*" ("book" was department store slang for a day's sales total) pointed to the difficulty of setting a clear quantitative standard for measuring sales performance.[21] An item had to be sold with due attention to the cultural aspects of consumption and not simply foisted off on the customer. Otherwise, the store stood to suffer an immediate loss from the return of the goods, and a long term loss from the customer's reluctance to visit the store again; worst of all, she might come to regard shopping in general as a disagreeable experience. High production in a factory was an unmixed blessing so long as it did not destroy the machinery, but high sales totals were seriously undermined if customers were annoyed by overbearing sales tactics. Machinery had no consciousness and would bear no grudges, but a customer offended could be a customer lost.

The message was not an easy one to convey to department store saleswomen. The new skilled sellers were to be thinking but also obedient employees; they were to follow store procedures to the last rigorous detail and yet respond creatively to opportunities to sell as they arose; they were to develop independent judgment but yet display unquestioning loyalty to the store; they were to try very hard to sell but not *too* hard. Managers were clearly uncomfortable with these contradictions and periodically despaired of teaching controlled discretion to their saleswomen. During the grim years of the

[19] Sidney S. Wilson, "How Retailer Keeps Trade at Home," *Dry Goods Economist*, 67 (March 1, 1913), 47.

[20] "Foster a House-Spirit," *Dry Goods Economist*, 64 (July 16, 1910), 28.

[21] "Breeds Disloyalty," *Dry Goods Economist*, 67 (March 22, 1913), 31; see also "Employee Rating System Maintains White House Personnel's Reputation," *Dry Goods Economist*, 79 (May 23, 1925), 13; *The Echo*, 45 (May 3, 1929).

1930s, for example, they succumbed to a vogue for drilling salespeople in "standard selling sentences" and in prescribed ways of dealing with various customer "types."[22] By 1940, however, the dominant theme of the department store trade association's national convention was that these cut-and-dried answers had proved useless and that the best rule for successful selling was the old standby—empathy with the customer.[23]

Since rules and procedures did not produce skilled selling, department store managers came to believe that nothing less than a thorough re-socialization of saleswomen would do. The customary agents of early socialization—the home and the school—had, in the view of these managers, failed to do their job. It was the fault, so they came to believe, of "unpropitious home surroundings and . . . defects in our education system" that so many salespeople "frequently speak and act in ways which do not commend them to people of refinement."[24] Working-class and immigrant children were simply not being assimilated into the respectable middle-class mainstream fast enough to fill the places behind the counters of department stores. The schools, moreover, were falling short in their methods as well as in the ideology they taught: they did not encourage thinking, provided only "*admonition*", and not "EXPLANATION", failed to teach students to "ANALYZE, rather than *memorize*."[25] These complaints are a measure of the degree to which department stores' labor requirements were different from those of manufacturers. Most of the latter would have been content had the schools inculcated the traditional virtues of hard work and obedience through admonition and memorization, while department store managers wanted initiative and independent judgment as well.

In order to work this transformation in those who became saleswomen, department stores undertook to "furnish the definitive, formative influences that the home and our educational facilities lack under present-day conditions."[26] The school-and-family imagery was pervasive in the retail literature: a 1916 discussion of Marshall Field's personnel department described it both as "Dean of Women" and as "a conscientious mother."[27] The theme was played out explicitly in the

[22] Agnes S. Cronin, "Ready-Made Responses for Salespeople," *Bulletin of the National Retail Dry Goods Association*, 15 (August 1933), 68–70; O. Preston Robinson, "Customer Types in the Teaching of Salesmanship," *Journal of Retailing*, 13 (December 1937), 125–127.

[23] Miriam L. Eggers, "Should We Train People to Sell or Help the Customer Buy?," *Joint Management Proceedings of the National Retail Dry Goods Association—1940* (New York, 1940), 95–99.

[24] "Where the Schools Fail," *Dry Goods Economist*, 67 (May 10, 1913), 27.

[25] "Where the Schools Fail," 28.

[26] *National Civic Federation Review*, 4 (July 15, 1913), 24.

[27] "Creating Efficiency Among Store Employees," *Dry Goods Economist*, 70 (January 1, 1916), 45; "Looking After the Needs of Employees," *Dry Goods Economist*, 70 (January 8, 1916), 47.

store as well. At Filene's, for example, the store manager and a counselor were known to the female employees as "Dad" and "Mother" respectively through the 'teens and 'twenties.[28] Managers were confident that the sorry product of an unfortunate home and a misguided school would change through the benevolent influence of the store. Samuel Reyburn, President of Lord & Taylor and a key figure in department store management circles in the 'twenties and 'thirties, spoke glowingly of the impact of the store environment on such a girl:

> Constant contact with the woman who is in charge of her department will have an influence on her. Daily contact with other girls who have been subjected to influences in business will have an influence on her. Daily observations of customers in the building will influence her, and slowly she will change because of these influences. She will lower the tone of her voice, grow quiet in her manner, exhibit better taste in the selection of her clothes, become more considerate of others.[29]

But, Reyburn continued, this "natural" process was too slow and haphazard, and in the enlightened store would be hurried along by training—the organized, deliberate effort to resocialize the department store saleswoman.

This process of resocialization can for present purposes be separated into two strands. The first, commonly known as welfare work, flourished during the first two decades of the century although its effects continued to be felt thereafter. The second, a variety of programs grouped under the heading of training, began in the second decade of the century but spread after 1920. The two phases were not in fact separate in aim and frequently overlapped in execution, but they focused on different aspects of the task of developing skilled selling: the first primarily concerned store facilities for workers, and the second involved activities explicitly designed to teach the new skill. Class and sex were central issues in both efforts.

Welfare work combined workers' facilities—rest rooms, lounges, dining rooms, gymnasiums, infirmaries, and libraries—with some rudimentary educational activities along the lines of personal hygiene, etiquette, and grammar classes. Welfare work, in the store as in the factory, had many meanings. Among these were the desire for good publicity, the hope of preventing union organization, and the belief that happier workers would be more efficient workers. In

[28] *The Echo*, 7 (January 1910); 14 (December 6, 1918); 15 (December 5, 1919); 21 (January 25, 1924); Memorial to T.K. Cory, August 25, 1925; 25 (May 6, 1927); 33 (September 7, 1934).

[29] "Training for Selling," *Convention Proceedings, Fourth Annual Convention, Store Managers' Division, National Retail Dry Goods Association* (New York, 1927), 102.

the store, however, welfare work assumed the added burden of dampening class conflict across the counter. One enthusiastic writer likened Jordan Marsh's employee facilities to a "high-class hotel," asking rhetorically: "If a girl, say, reared in humble surroundings, spends some part of her day amid pictures and cheerful furniture and tasteful rugs and books and sunlight, will she not insensibly acquire a clearer insight into the ideas and needs of the majority of the store's customers? Will she not, then, be better able to wait upon her trade deftly, sympathetically, and understandingly?"[30]

Welfare work illustrates the double imperative under which retail managers were operating in fostering production and consumption simultaneously, and the retail literature reflects their delight that such measures served both ends. Medical programs, for example, could cut costs: in one store, described by the dean of department store doctors, a health program had so reduced absenteeism that the work force could be cut by fifty-four people.[31] On the other hand, these programs could help to eliminate health problems related to class status and thus eliminate a jarring note in the palace of consumption: in the words of a journalist, "A customer is attracted to a person of wholesome appearance [and] will promptly and quite excusably shrink from a clerk whose hair shows the presence of vermin, or who is careless in controlling a cough."[32] In the end, of course, welfare work promised to do even more than mollify the socially concerned customer and transform the working-class saleswoman—it sought to attract the elusive "better class" of salesperson to a store that was a more attractive and respectable place to work.

Welfare work helped to change the popular image of the shopgirl by improving the working conditions of the saleswoman and by beginning to attack the class-based characteristics that managers found so troublesome. Still, it gave no positive vision of what the new skilled salesperson would be like; clean towels, hot meals, and edifying literature could set the stage for skilled selling, but they could not write the script. This task fell to training programs. Tremendously varied in their specifics, these programs were in general an attempt to build upon the education aspects of welfare work, with a sharper focus on the specific demands of department store selling. Like welfare work, training programs had two

[30] "Jordan-Marsh Ninth Floor Heralds New Era in Personnel Work," *Dry Goods Economist*, 74 (March 13, 1920), 73.

[31] Arthur B. Emmons, *Health Control in Mercantile Life: A Problem of Conserving Human Life* (New York, 1926), 222–224.

[32] "Hygiene Behind the Counter," *Survey*, 36 (1916), 434; see also "Training the Help," *Dry Goods Economist*, 65 (September 30, 1911), 41.

components. One sought to increase immediate, quantifiable efficiency—for example, to train saleswomen to be punctiliously accurate in filling out sales checks. The other focused on developing the salesperson's ability to cope creatively with situations requiring discretionary behavior instead of cut-and-dried compliance with rules.[33] It is the second that primarily concerns us here, for it was this aspect that defined and, in so far as possible, transmitted selling skill.

Discretionary selling training took many forms, but from its inception until at least 1940, it fell into two broad categories: merchandise training and salesmanship training.[34] The first included instruction in the historical development of a given type of merchandise, its manufacturing process, its properties, and its uses. The content of merchandise training was a curious amalgam of high culture (in, for example, visits to museums), traditional womanly wisdom about homemaking and dress, newer "scientific" information about the care of merchandise, and the dictates of fashion. As a whole, however, the message was a simple one: to convey a respectable notion of "good taste" to the saleswoman. In the words of Helen Rich Norton, an important figure in retail training circles during this period, "the broadest and most important of the aims" of retail training was to convey to the students "[i]mproved standards of living, better habits of thought, higher interpretations, and ideals."[35]

Some attempts to reach this goal verged on the absurd: the National Retail Dry Goods Association, the department store trade association, and the *Dry Goods Economist* both circulated films showing life in Palm Beach and Miami so that salespeople could develop the "mental 'atmosphere'" to properly advise resort-bound customers.[36] Norton's textbook, *Retail Selling*, included a five-page list of essential French terms, with the cautionary note that they should be taught by a French teacher.[37] Whether the goal was to apply a veneer of middle-class trappings or to remake the saleswoman's "inner consciousness,"[38] the target was the same: the saleswoman's class identity.

[33] Personnel Group of the National Retail Dry Goods Association, *The Scope of Training for Retail Store Service*, publication of the Federal Board for Vocational Education, Trade and Industrial Education Service (Washington, D.C., 1929), 4.

[34] Helen Rich Norton, *Department-Store Education: An Account of the Training Methods Developed at the Boston School of Salesmanship, Under the Direction of Lucinda Wyman Prince*, Department of the Interior, Bureau of Education Bulletin, 1917, No. 9 (Washington, D.C.), 13–20; "Sales Training," *Bulletin of the National Retail Dry Goods Association*, 22 (March 1940), 67.

[35] Norton, *Department-Store Education*, 12.

[36] "Fashion Training for Salespeople of Ready-to-Wear," *Journal of Retailing*, 4 (April 1928), 29.

[37] Helen Rich Norton, *A Textbook on Retail Selling* (Boston, 1919), 272–276; see also, Personnel Group of the National Retail Dry Goods Association, *The World of Fashion* (New York, National Retail Dry Goods Association, 1931), I, 9–45; II, 47–61.

[38] "Expose Employees to Knowledge," *Department Store Economist*, 1 (August 10, 1938), 35.

By contrast, salesmanship training attempted to build on the saleswoman's gender identity. Women had been trained to be consumers even before they were trained to be saleswomen: for example, they were encouraged to be conscious of dress, in terms of fashion as well as technical details. Such a consciousness became selling skill when saleswomen could guess a customer's size at a glance or estimate her budget by assessing the clothes she wore.[39] Similarly, saleswomen had as women been socialized to deal with affect, to develop talents in sensing and meeting people's needs: once behind the counter, they had only to apply their interpersonal talents to dealing with their customers.

The specific techniques taught by training programs encouraged saleswomen to develop their skills at interacting with other women in order to create sales where there would have been none. Trainers counseled saleswomen to expand the individual sales transaction through what was known as suggestion selling, and to set the stage for future transactions by building up a clientele of customers. Suggestion selling was by far the most popular tactic urged upon salespeople; the literature abounds with inspirational pieces touting, quite correctly, its powers to expand profits and cut costs.[40] Suggest a tie to go with a shirt—a second pair of hose—a handbag to match the shoes—a good buy on dishtowels—size up your customer's budget and preferences, and sell her the maximum amount of merchandise in a given visit to the store. Suggestion selling was as much a staple subject in the Filene's employee newspaper, *The Echo*, as it was in the trade press; a reading of *The Echo* shows that encouragement of suggestions went beyond mere exhortation, with prizes, bonuses, and write-ups as rewards to those who distinguished themselves at suggesting.[41] Skilled suggestion selling tested the mettle of the saleswoman: if she were uninspired, too aggressive, or timid, her effort to suggest more merchandise could at best fail and at worst alienate the customer.

Developing a clientele required a long-term rapport with customers, an ability to anticipate their needs and whims, and the same

[39] Felix Koch, "Making the Customer Happy with Her Purchase, Is Mabley's Selling Keystone," *Dry Goods Economist*, 78 (January 5, 1924), 33; Martha Elliott, "The Buyer's Share in Training," *Bulletin of the National Retail Dry Goods Association*, 16 (July 1934), 39.

[40] George H. Louis, "The Gentle Art of Subtle Selling," *System*, 20 (August 1911), 149–154; "Two Sales to Each Customer," *System*, 31 (February 1917), 203; Research Bureau for Retail Training, *Personnel Research in Department Stores: A Report of Studies, 1918–1925* (Lancaster, Penn., 1927), 29–31; H.F. Twomey, "How to Raise the Average Sales Check Through Productive Advertising and Display," *Bulletin of the National Retail Dry Goods Association*, 14 (July 1932), 492; Virginia Thatcher, "Organizing Suggested Sales," *Bulletin of the National Retail Dry Goods Association*, 14 (September 1932), 667–670; Mary Curtis, "How Does a Good Saleswoman Sell?," *Bulletin of the National Retail Dry Goods Association*, 17 (August 1935), 17–18.

[41] See, for example, *The Echo*, 10 (February 12, 1913); 17 (October 21, 1921); 29 (January 2, 1931).

delicate balance between increasing sales and avoiding offense. Saleswomen were urged to keep files of customers' addresses and buying habits, exhorted to remember their names, and encouraged to contact them about special merchandise. In order to deal successfully with her clientele, a saleswoman had to develop empathy with a varied group of comparative strangers, and to learn not only what sorts of merchandise they were interested in but also under what conditions and in what way she could approach them.[42]

Both suggestive selling and developing a clientele were general techniques which saleswomen could only be urged and not forced to use; more than any other aspect of skilled selling, they demanded the discretion, resourcefulness, and independence of judgment that were at the heart of the new style of selling. There was in fact a contradiction in trying to teach these techniques at all. Properly speaking, all training programs could hope to do was to encourage saleswomen to channel their interactive skills into the best possible relations with customers through suggestion selling and developing a clientele. In fact, executives at all levels in department stores recognized that the implementation of these tactics was a delicate process that depended on the complex social situation on the selling floor. They would be successful only when grounded in the salesperson-customer interaction; used formulaically, they would fall flat.

Saleswomen became expert in knowing when and how to use these methods, and managers were eager to appropriate that knowledge so that they could recycle it in training programs. One of the most widely used textbooks on salesmanship, *How to Sell at Retail*, was mainly a compendium of the "practical methods" used by "three hundred expert salespeople."[43] By and large, however, the evidence both from the trade press and from Filene's shows that managers waged a losing battle to wrest shop-floor secrets from their salespeople. They tried both the carrot—offering payments for suggestions about improving selling service and stories about feats of selling—and the stick—requiring employees to fill out "call slips" whenever a customer requested an item that was out of stock.[44] Neither method persuaded salespeople that they should share their

[42] Henry A. Breithaupt, "Putting Personality into a Store," *System*, 48 (August 1925), 222–224; Caroline Spalding, "Case Studies in Training," *Bulletin of the National Retail Dry Goods Association*, 18 (February 1936), 86–87; Lynn Sumner, "Retailing by Wire," *System*, 15 (1909), 281.

[43] Werrett Wallace Charters, *How To Sell at Retail* (Boston, 1922), vii.

[44] "A Reminder to Clerks," *Dry Goods Economist*, 63 (October 9, 1909), 109; "What Happens to the Want Slips in Your Store?", *Dry Goods Economist*, 79 (September 5, 1925), 18; *The Echo*, 1 (October 1, 1902); 5 (June 1907); 15 (July 17, 1919).

on–the–job wisdom with their superiors, and managers repeatedly argued the necessity and bemoaned the ineffectiveness of suggestion drives and call slips.

Management Training Fails

In the end, however, it was not just a classic workers' resistance to surrendering knowledge to managers, but rather the complex workings of class and sex, that undermined the attempt to turn shopgirls into skilled saleswomen. The women behind the nation's counters were alert to the fact that there was a disturbing two-sidedness to the vision of skilled selling that was presented to them by their bosses. Managers encouraged their saleswomen to forget the fact that department store selling was "looked upon by the public as the Cinderella of occupations" and to think of it as a highly trained vocation that conferred dignity on those who practiced it.[45] John Wanamaker refused to have his employees called "shopgirls" or "help," and asserted that "We are men and women, living our lives, doing our share, doing it with dignity, doing it in the most respectable way."[46] *The Echo* was somewhat more grandiose, likening the development of the art of selling to the work of ministers and lawyers; few made the exact comparison, but many referred to selling as a profession.[47] Perhaps the fullest statement of the self-image that skilled selling was supposed to foster appeared in a discussion of the work of Lucinda Prince, the head of the National Retail Dry Goods Association's education department from its founding in 1915 until her death in 1935: "The change in the individual is a new conception of the dignity of work in general and of the chosen occupation in particular. There is a satisfaction that comes with mastery of certain of the forces of one's environment, and a pride inseparable from acquired skill and the achievements it makes possible."[48]

In fact, managers' policies tended to foster dignity only rhetorically. For better or for worse, one criterion by which our society assesses an occupation's dignity is its compensation, and the pay of saleswomen remained low in comparison to alternatives available to women in office and factory.[49] For a short period in 1920, the *Dry*

[45] "General Type of Employee Must Be Raised, Charters Asserts," *Dry Goods Economist*, 74 (February 28, 1920), 17.

[46] *Dry Goods Economist*, 63 (November 21, 1908), 49.

[47] *The Echo*, 1 (August 1902).

[48] *Report of the United States Commissioner of Education, 1916*, I, 173 (Washington, D.C., 1917). I am indebted to Janice Weiss for this quotation.

[49] National Retail Dry Goods Association, *Ninth Annual Convention Bulletin* (New York, 1920), II, 55–67; "Corsetiere or Corset-eer—Which?", *Dry Goods Economist*, 74 (January 17, 1920), 197.

Goods Economist urged that higher salaries would change both the image and practice of selling, but the argument convinced only an enlightened few among department store managers, such as those at Filene's.[50] At about the same time, store executives began to use a variety of incentive-payment schemes such as commission and quota-bonus, but they administered them so as to raise productivity and not earnings.[51]

Perhaps even more important in the day-to-day conduct of the store, however, was the fact that saleswomen were not treated as dignified professionals; if anything, they were treated more like servants. Generations of clerks chafed under John Wanamaker's pronouncement that the customer was always right. Although few stores enforced it literally—that would have been too costly—the maxim still prescribed servile and unquestioning demeanor for saleswomen: it was unacceptable to correct an error or parry an insult by a customer.[52] A 1938 survey of both customers and salespeople about what they considered to be "successful" salesperson responses to customer objections to merchandise—a successful response being one to which customers reacted favorably—made clear the types of behavior that were necessary for fruitful interactions. The most successful responses involved "*encouraging*," "*deferential*," and "*conciliatory*" remarks; the sales-squelching come-backs included those "indicating a *superior attitude*," "*indicative of personal opinion*," or "*contradicting*."[53] The same balance sheet would serve equally well if mistresses and servants had been questioned.

Department store life included more tangible signs of servitude for saleswomen. Many, for example, objected to helping customers try on clothing since it involved the servile intimacy associated with being a maid.[54] They loathed the systems that stores devised for special control or inspection of salespersons' personal packages; one manager testified that one of the most popular steps he ever took was to abolish his store's parcel-checking system.[55] Saleswomen also

[50] "The Salesforce Payroll," *Dry Goods Economist*, 64 (September 3, 1910), 35; "Salaries," *Dry Goods Economist*, 64 (September 24, 1910), 79; "The Clerk's Difficulties," *Dry Goods Economist*, 64 (October 22, 1910), 61; Mary LaDame, *The Filene Store: A Study of Employes' Relation to Management in a Retail Store* (New York, 1930), 148–152, 159–160.

[51] Anne Bezanson and Miriam Hussey, *Wage Methods and Selling Costs* (Philadelphia, 1930), see esp. ch. 4.

[52] *The Echo*, 14 (May 23 and June 28, 1918); "Ten Commandments in Selling," *Dry Goods Economist*, 79 (April 18, 1925), 24–30.

[53] Josephine Boyle, "Answering Customers' Objections," *Journal of Retailing*, 14 (December 1938), 120.

[54] *The Echo*, 26 (March 30, 1928); Susan Katherine Manning, "An Analysis of a Merchandising Department (Foundation Garments) with Organized Material for a Departmental Training Program: A Study Made in Nine Pittsburgh Stores" (M.A. thesis, University of Pittsburgh, 1930) 26.

[55] Store Management Group of the National Retail Dry Goods Association, *Mid-Year Convention Proceedings* (New York, 1942), 139.

resented rules that confined them to segregated store facilities, and made that resentment amply clear to management. They objected to separate employee entrances, particularly when they were tucked into dingy back streets and contrasted too obviously with the customers' gracious doorways.[56] Saleswomen at Filene's regularly violated rules restricting them to certain elevators and stairways and prohibiting them from using the customers' lounges and writing rooms.[57] The two-class system of store facilities smacked of the upstairs-downstairs division of the servant's experience and clashed with the rhetoric that termed selling a dignified profession. A writer for the *Dry Goods Economist*, who had once been a saleswoman, was distressed by the complaint of Minnie, a former comrade behind the counter: "Here I feel practically like a servant." The writer went on to say, "and there are hundreds of girls and women who feel more or less as Minnie did, but who are not so frank. Where on earth this 'servant' idea originated I was never able to figure out. I have known successful, mature saleswomen who would become defiant and belligerent at the mere mention of the word 'servant.' They loved their work and would have been miserable doing anything else, and yet they had that sensitive spot."[58]

Dress rules intensified the impression of the servile status of saleswomen, and a detailed examination of the hotly argued issue of clerks' garb shows how a management policy could have unintended and contradictory effects. It is difficult to date the appearance of dress regulations in department stores, but they were not yet universal by 1910. A *Dry Goods Economist* editorial made it clear that the question of dress had important implications for class relations within the store: "In certain departments of some stores the saleswomen are attired, hairdressed, and manicured to a point which seems to put them out of the class of business women, and thus tends to complicate their relations with the customer, or possible customer."[59]. Management attempted to eliminate this problem by requiring all saleswomen to dress in the same color, usually black or navy blue, in the hope that drab colors would minimize the "danger of display of poor taste and lack of background on the part of employees."[60] In this case as in others, simple rules did not suffice to

[56] "They Put Martha in Kitchenware, And Left Her—So Someone Else Got Her," *Dry Goods Economist*, 74 (January 3, 1920), 19.

[57] *The Echo*, 10 (December 7, 1912 and April 30, 1913); 14 (January 11, 1918), 21 (April 4, 1924); 22 (February 6, 1925); 24 (February 18, 1927); "Martha in Kitchenware," 19–20.

[58] "Customers Who Have Tried to Uplift Me," *Dry Goods Economist*, 73 (January 11, 1919), 105.

[59] "Saleswomen's Appearance," 44.

[60] "Employees' Dress Regulations," *Bulletin of the National Retail Dry Goods Association*, 10 (October 1928), 457.

produce pleasingly dressed saleswomen, and a number of stores placed mannequins garbed in clothing deemed to be suitable in style and color near employees' locker or lunch rooms.[61]

We can trace through the pages of *The Echo* the evolution of dress regulations at Filene's and glimpse the responses of saleswomen as well as the policies of managers. The net effect of these rules was clearly to undermine the saleswoman's sense of herself as a dignified worker and a handmaiden of consumption. No single issue aroused more interest in the selling force, and no single rule provoked more dislike. Filene's had mandated black for saleswomen as early as the turn of the century, but in 1902 the management considered uniforms; *The Echo*'s interviews showed that saleswomen were unanimously opposed to the proposal. One woman asserted that uniforms would be "a badge of service," and others complained that they would look like, variously, orphans, charity patients, paupers, and waitresses.[62]

The battle over dress standards waxed and waned for the next four decades; although the specific terms of the debate changed over time, saleswomen at every point affirmed their preference for more relaxed standards. In 1913, for example, four-fifths of the saleswomen demanded the right to choose between black and white garments, on the grounds that "the management owed us the right to dress as we pleased."[63] In 1930, saleswomen invoked their rarely used right to a store-wide referendum under the terms of the store's worker-participation plan; they voted twenty to one in favor of a broad standard prescribing only that they dress in "business-like styles and neutral shades." The justification this time referred not to their offended dignity or rights, but contained a barely veiled threat to management that saleswomen meant to practice what they preached to their customers. The women of one department warned that they could not sell effectively if they didn't feel that they were "dressed well and look[ed] smart.[64] Management refused to bend the existing rules, but the choice could not have been a simple one: by continuing to require monochromatic dress, they were undermining not only their own efforts to have saleswomen think of their work as skilled and dignified, but also their attempts to spread the culture of consumption. The dilemma was endemic to the industry: a measure,

[61] "Store Instructs High School Students," *Dry Goods Economist*, 69 (March 13, 1915), 33; *The Echo*, 39 (March 27, 1931).

[62] *The Echo*, 1 (December 1902).

[63] *The Echo*, 10 (February 26, 1913). See also January 29, February 12, and February 19, 1913.

[64] *The Echo*, 29 (June 27 and July 18, 1930). See also July 11, September 26, and October 3, 1930, and March 27, 1931.

like this one, designed to serve one of the retailer's goals frequently sabotaged other aspects of his management strategy.

Similar contradictions grew out of management's encouragement of skilled selling through suggestions and developing a clientele. Suggestion selling required the exercise of initiative and empathy in a deferential context, but in practice saleswomen often assumed a kind of equality with customers, to the distress of customers and managers alike.

> A smart-looking business woman, with an air of authority, approached the counter and asked to see a stylish and serviceable low collar. The girl put forward a collar that was a specialty of a leading firm.
>
> "Here's one that we are selling lots of to stenographers and typewriters, and lots of us girls have bought 'em, too," the girl explained.
>
> Harriet saw a shade of resentment pass over the woman's face, as she set her lips firmly, dropped the collar and started to turn away.[65]

The complaint that saleswomen were too forward in imposing their judgment on customers is a staple of the retailing literature.[66] Managers' attempts to encourage saleswomen to develop independent judgment, "good taste," and a fashion sense conflicted sharply with their desires to have the clerks display servant-like deference. A saleswoman firm in her conviction that she had the last word on fashion was prone to sneer at a customer whose dress or merchandise requests were less modish.[67]

The issue of clientele was no less problematic. Saleswomen took the charge to develop a continuing relationship with a group of customers more literally than managers intended, and frequently refused to wait on, or at least to wait on effectively, a customer outside their charmed circle.[68] Moreover, they served their clientele in ways that went far beyond management's definition of good service; saleswomen, for example, sometimes hid merchandise until it was ready for a markdown, at which point they would alert a favored customer.[69] Managers wanted saleswomen who had the social skills to get along well with customers and to be able to advise them tactfully on fashion questions—but the women most skilled in these respects were likely to be equally independent and resourceful in dealing with their employers. Moreover, since managers constantly gave mixed messages about dignity and deference, it was not

[65] "Told to the Salespeople," *Dry Goods Economist*, 67 (March 8, 1913), 95.

[66] Westlaw Keene, "Fabrics," *Bulletin of the National Retail Dry Goods Association*, 22 (May 1940), 48.

[67] "The Covert Sneer," *Dry Goods Economist*, 66 (June 1, 1912), 41; Anne Shannon Moore, "What I Don't Like When I Go Shopping," *System*, 37 (May 1920), 962–964.

[68] Robert W. Pogue, "A Bonus Plan that Cut Costs," *System*, 37 (January 1920), 62.

[69] Margaret Holbrook Titcomb, "Selling to the Selling Force," *Dry Goods Economist*, 80 (December 19, 1925), 13.

surprising that saleswomen had at best a mixed sense of loyalty to their bosses. By encouraging saleswomen to use their "womanly" skills of interaction and empathy on the job, managers set loose forces whose operation it was impossible to control closely.

Even more serious was managers' failure to break the grip of saleswomen's own ways of managing the selling floor. During the years when managers had allowed their sales forces to grow "like Topsy," the saleswomen had given their own brand of order to the selling floor. Observers throughout the period under consideration remarked upon the social order of the selling floor, but perhaps the definitive assessment of saleswomen's informal self-government came from George F. F. Lombard, who observed the children's clothing departments at Macy's in 1940, three decades after managers had begun to try to control the selling floor and the skill of its workers. Lombard concluded:

> Within the limits of the facilities themselves, the processes of control . . . allowed a very full elaboration of the values important to each of the groups and to many of the individual girls. . . . [T]he salesgirls achieved this opportunity for the expression of self in what is often considered a restricted environment—a business organization—where the need for profits and the relative sameness of working conditions have seemed to many to offer little—and sometimes no—chance for self-expression. . . . These salesgirls, women of different ages, products of different cultures, had achieved for themselves a way of life whose effectiveness in terms of controlling behavior we can view only with great respect.[70]

In the years when salespeople were haphazardly chosen and barely trained, if at all, saleswomen developed a de facto apprenticeship system whereby newcomers were initiated into the complex dynamics of the selling floor by their peers rather than by their superiors. When management tried to appropriate this function through training programs, saleswomen received the newly trained workers with reactions ranging from wariness to hostility; each had to be "retrained" on the selling floor according to the department's unwritten rules. Ways of relating to one another, to customers, and to management were firmly conveyed by precept and example to new saleswomen, and this informal training system was remarkably impervious to managers' initiatives.[71]

[70] George F. F. Lombard, *Behavior in a Selling Group: A Case Study of Interpersonal Relations in a Department Store* (Boston, 1955), 160.

[71] I have written in detail of these and other shop-floor practices of saleswomen; see "'The Clerking Sisterhood': Rationalization and the Work Culture of Saleswomen in American Department Stores, 1890–1960," *Radical America*, 12 (March-April 1978), 41–55, and "The Customers Ain't God: The Work Culture of Department Store Saleswomen," in Daniel Walkowitz and Michael Frisch, eds., *Working-Class History: Toward an Integrated View of Labor in American Life* (forthcoming from University of Illinois Press in 1982).

Conclusion

Department store managers by and large failed to replace the shopgirl with a skilled saleswoman who met their complex and contradictory specifications. Three decades of efforts to train a skilled selling force left retail managers little more satisfied with the performance of the women behind their counters in 1940 than they were in 1910. One despairing writer opined, "In spite of the efforts of training departments, the standard of service remains mediocre. . . [F]ew clerks can be depended upon really to facilitate an intelligent choice."[72] Managerial disillusion was reflected in the trade press: articles on the need for skilled selling increasingly shared the spotlight after 1940 with testimonials to the necessity of "self-selection" or "simplified selling"—both euphemisms for self-service.[73] Dramatic changes in the nation's social and economic climate, which are beyond the scope of this discussion, reinforced store executives' sense that skilled selling could no longer be the foundation of their sales strategy. Reeling under the impact of the depression and World War II and painfully aware of the failure of their training programs, they embarked upon a new path that their successors still follow today.

The history of management policy toward department store saleswomen provides a useful case study that both revises and broadens our conceptions of business experience in the twentieth century. The path followed by department store managers was related to, though distinct from, that taken by their counterparts in factories. Rationalization in stores relied far less on scientific management than in factories, and far more on the skills of employees. Thus it becomes critical for business historians to study the interactions between managers and workers; when the worker's importance to the enterprise increased, as it did in the department store, so too did her power to disrupt.

The study of a specific industry, far from narrowing our perspective, greatly broadens it. Only by seeing how major trends and social forces interact in the crucible of a concrete situation can we grasp the full complexity of historical change. The study of department store management provides the opportunity to understand the ways in which larger business trends such as rationalization, personnel management, and the culture of consumption

[72] Kenneth Collins, "The Trend Toward Self-Service," *Journal of Retailing*, 16 (December 1940), 99.
[73] See, for example, Franklin Lamb, "Store Service Economics," *Bulletin of the National Retail Dry Goods Association*, 25 (February 1943), 30, 34; and Robert G. Seymour, "Simplify Your Selling and Take a Profit!," *Stores*, 34 (December 1952, 24, 41–42.

interconnected with, and sometimes contradicted, one another. Finally, it shows the way in which managers have responded to two of the most basic categories in our society: class and sex.

Part III
Price

[23]

Excerpt from Jules Backman, *Price Practices and Price Policies*, 51–4.

HISTORY OF PRICE INFLEXIBILITY

Price inflexibility is not a new phenomenon. If the price system is viewed broadly to include prices of other goods and services as well as those quoted at wholesale, it is evident that price inflexibility has always been present in the economic system.

The comprehensive controls over prices and wages exercised by the guilds as well as the controls prevalent during the mercantilist period (before 1750) made for a high degree of inflexibility. From the evidence at hand, it seems clear that price inflexibility was a predominant characteristic of these earlier economies. With the reaction against mercantilism, as reflected in the development of the philosophy of laissez faire and the greater freedom of the individual, price inflexibility decreased markedly in comparison with the earlier period. The growth of organized markets, the far-reaching developments in communication and transportation, the standardization of many commodities, and the improvement in technology, all contributed to this increase in flexibility. But even at that time there were large segments of the price structure which still remained very rigid—interest rates, rents, and retail prices.

Studies of the movement of wholesale prices made by Dr. Rufus Tucker showed the tendency of many prices to remain insensitive during the early nineteenth century depressions, while other prices declined very sharply and, hence, indicated flexibility.

There can be no doubt that in this country ever since 1790 our price structure has included a large number of prices that remained unchanged for months or years at a time, side by side with prices that changed monthly, weekly, daily, or in recent years even hourly. Such figures as are available for England in the eighteenth and early nineteenth centuries show that there were also the prices of manufactured goods that frequently remained unchanged for long periods, and never fluctuated as widely as the prices of agricultural products. The prices paid by hospitals for milk, salt, blankets, hats, and shoes remained unchanged for many years at a time . . . rigid prices always existed; . . . to a very large extent they were characteristic of the same articles of which they are now characteristic, and there is even very strong reason to believe that a hundred years ago . . . rigid prices were proportionately more numerous and more important to the consumer than now.[4]

In another study,[5] Tucker presented data showing the changes in sensitive and insensitive prices during four depressions since

[4] Rufus Tucker, "The Reasons for Price Rigidity," *American Economic Review*, March, 1938, p. 47.

[5] Rufus Tucker, "The Essential Historical Facts About 'Sensitive' and 'Administered' Prices," *The Annalist*, February 4, 1938, p. 195.

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1837. As Figure 6 shows, there has been no significant change in behavior during this period. These four periods provide additional evidence of the consistency of price behavior.

For the period since 1890, the extent of price inflexibility as measured by wholesale prices has not been significantly changed.[6] The following observations by Wesley C. Mitchell for the first half of this latter period also are pertinent:

> A survey of . . . 230 commodities throws the diversity of price fluctuations into high relief. During the 24 years 1890-1913, no two of the commodities quoted underwent the same change in price. Some articles rose rather steadily in price and fluctuated on a much higher level in 1913 than in 1890; for example, rosin and crude petroleum. Other articles fell much more than they rose and fluctuated on a much lower level than at the beginning; for example, soda and wood alcohol. Some articles were steady in price, seldom changing from one year to the next; for example, bread and certain kinds of tools. Other articles changed in price every year; for example, cotton and pig iron.[7]

This study clearly indicated that wholesale prices exhibited varying degrees of flexibility before World War I. It also gives a good picture of the diversity of price movements and the realignment of price relationships which usually occur over a period of time.

It is evident that a complete system of flexible prices has never prevailed. Even when small business, and not the large corporation, was of primary importance, even before administered prices became significant, price rigidity was a familiar phenomenon in our economic system. Yet despite these rigidities tremendous strides of progress in the production and distribution of goods as well as in human well-being were recorded. Whether the progress would have been greater in the absence of price inflexibilities, is difficult to determine, but it is an historical fact that large advances did take place.

Under these conditions the pertinent question appears to be whether the tendency in recent years has been toward greater or lesser inflexibility. Tucker suggests that formerly "rigid prices were proportionately more numerous and more important to the consumer than now." A contrasting opinion is offered by Professor Mason who suggests that greater inflexibility is indicated by the de-

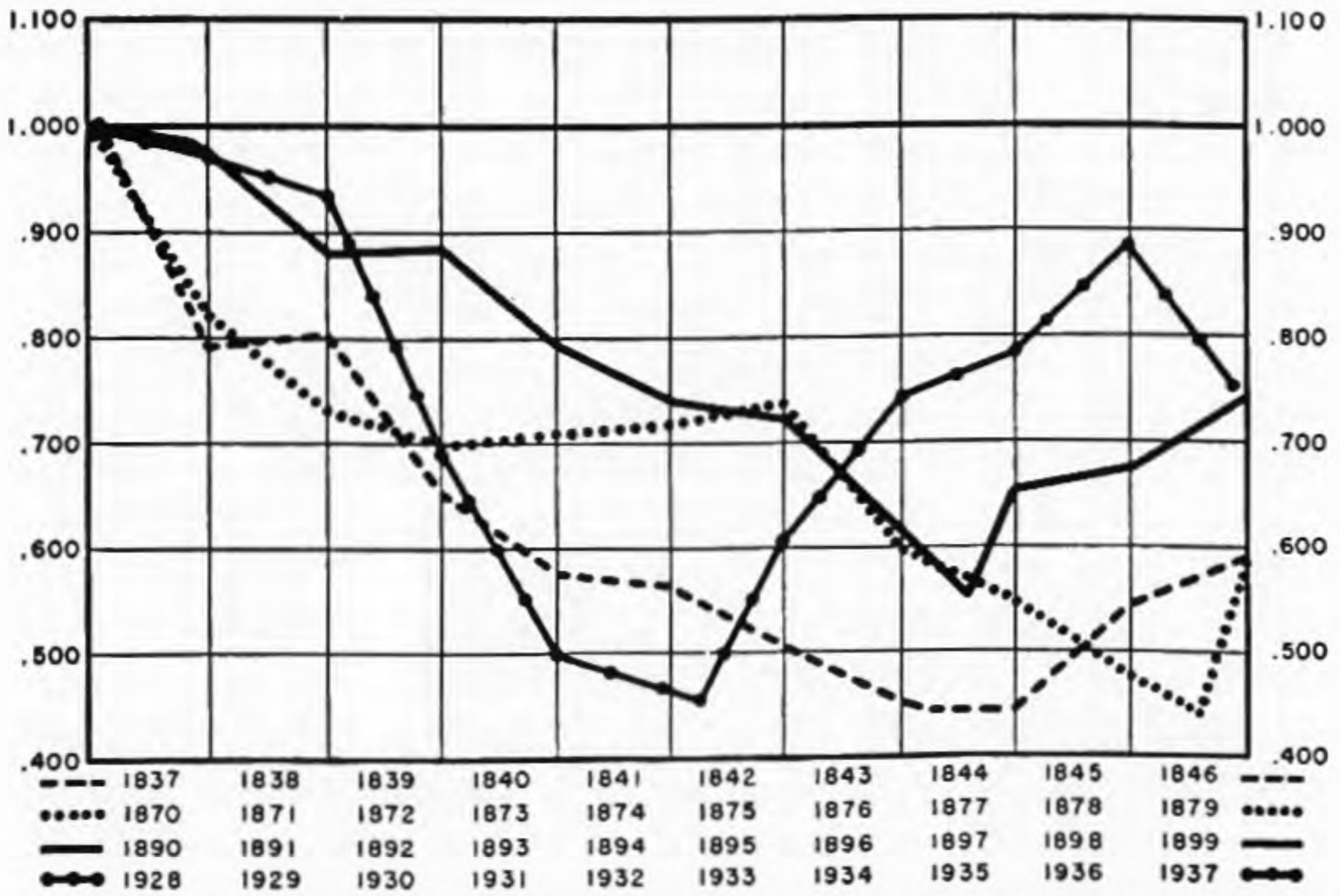
[6] E. S. Mason, "Price Inflexibility," *The Review of Economic Statistics*, May, 1938, p. 62.

[7] Wesley C. Mitchell, "The Making and Using of Index Numbers," *United States Bureau of Labor Statistics Bulletin No. 656* (Washington: U.S. Department of Labor, 1938), p. 12.

clining importance of agricultural products (a highly flexible group) and the increasing importance of various public utility services (a very inflexible group).[8] However, the farm and the local community were much more self-sufficient in those days than is the case today. Products which are now purchased were frequently home-made in that earlier period (clothing is a good illustration). As a consequence, the proportion of farm products sold was probably smaller than it is today; in the circumstances this area of flexibility probably has not decreased so much as Mason implied.

FIGURE 6

RATIO BETWEEN SENSITIVE AND INSENSITIVE PRICES



Source: Rufus S. Tucker, "The Essential Historical Facts About 'Sensitive' and 'Administered' Prices," *The Annalist*, February 4, 1938, p. 195.

If to the instances cited above are added the increased inflexibility in wage rates attending the growth of labor unions, and the control of wages and hours, first under the NRA and later under the Fair Labor Standards Act (Wages and Hours Act), the development of resale price fixing with the accompanying increased rigidity in those prices, and the experiments with direct and indirect price fixing by or with the consent of the government, then it is probable

[8] Mason, *op. cit.*, p. 53. See also G. C. Means, "Big Business, Administered Prices, and the Problem of Full Employment," Address Before the American Marketing Association, Philadelphia, Pa., December 28, 1939, p. 5.

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that price inflexibility is beginning to cover a wider area than it did in the past century.

[24]

Excerpt from Jules Backman, *Price Practices and Price Policies*, 94–6.

NONPRICE COMPETITION IS NOT NEW *

CHARLES F. PHILLIPS

In recent years the term "nonprice competition" has appeared with increasing frequency in economic literature. In fact, the term has come so rapidly into widespread usage there is a danger of our thinking that what is described by it is a new development. Nothing could be further from the truth, since sellers have always competed, in part, on the basis of other than price factors. In 1652 a seller of coffee "puffed his wares" in an advertisement not on the

* From Charles F. Phillips, "The Role of Non-Price Competition," in *Pricing Problems and the Stabilization of Prosperity* (Washington: Chamber of Commerce of the United States, September 18, 1947), pp. 61-62, 63-64. Mr. Phillips is President of Bates College.

basis of price, but with the claims that, among other things, it was "good against sore eyes . . . headache . . . dropsy, gout and scurvy." [3] This seller was engaging in nonprice competition. And in 1711 another seller sought to increase his sales by advertising his willingness to sell, in his own words, "a most incomparable Paste for the Hands, far exceeding anything ever yet in Print: It makes them delicately white, sleek and plump; fortifies them against the scorching Heat of the Fire or Sun, and Sharpness of the Wind. A Hand cannot be so spoil'd but the Use of it will recover them." [4] Even that master of price competition, Rowland H. Macy, the founder of R. H. Macy and Company, who was not adverse to claiming in 1854 that he undersold competition by 20 per cent, also sought business on a nonprice basis. At least he was willing to admit that his Haverhill store (in which he experienced one of his early failures) had the "earliest styles." [5] And, in spite of Henry Ford's effort of the 1920's to minimize nonprice competition in the sale of cars by giving the customer "his choice of any color car he wanted, so long as it was black," nonprice competition has long played an important role in the automobile industry. No, nonprice competition is not a new development; rather we have been somewhat slow to recognize its significance and to analyze it with care. . . .

It is fairly evident—although detailed statistical evidence is not too plentiful—that the trend is toward more nonprice competition. . . . At least, this was true up to the outbreak of World War II following which both price and nonprice competition were minimized because of the shortage of goods. Our total expenditures for local and national advertising increased from $1,515 million in 1935 to $2,035 million in 1941 and to $3,117 million in 1946.[6] Moreover, over a long period of years these expenditures have probably increased more rapidly than national income.[7] So far as nonprice competition on the basis of quality and service is concerned, we have even watched the chain stores—which developed largely on the basis of price competition—offer more attractive and better-

[3] Henry Sampson, *History of Advertising* (London: Chatto & Windus, 1930), pp. 68-69.

[4] Lawrence Lewis, *The Advertisements of the Spectator* (New York: Houghton-Mifflin Co., 1909), pp. 117-18.

[5] R. M. Hower, *History of Macy's of New York, 1858-1919* (Cambridge, Mass.: Harvard University Press, 1943), pp. 19, 28.

[6] Hans Zeisel, "1946 Advertising Volume Greatest in U. S. History," *Printers' Ink*, March 28, 1947, p. 34.

[7] Zeisel, *op. cit.*; *Business Week*, July 26, 1947, p. 34; and A. W. Frey, *Advertising* (New York: The Ronald Press Co., 1947), p. 6.

equipped stores. In some fields they have even undertaken the extension of credit as a means of attracting customers.

Fashion competition has also increased. As recently as 1914 only about 20 per cent of cotton goods were affected by changes in fashion. Even these changes were fairly slow so that they caused no violent readjustment. In more recent years, however, "practically all fabrics from flour bags to sheets and automobile upholstery . . . (are) subject to changes in style." [8] In automobile and other mechanical goods the same trend is evident. Streamlining of automobiles (at least when held to a moderate degree) proved popular, so the radio, the electric washer, the mechanical pencil, and the electric refrigerator were treated to a comparable design. Yes, the trend seems clearly in the direction of more competition on nonprice factors.

[8] A. R. Burns, *The Decline of Competition* (New York: McGraw-Hill Book Co., Inc., 1936), p. 408. (Quoted from an article by Murchinson.)

[25]

Excerpt from Jules Backman, *Price Practices and Price Policies*, 92–4.

THE ORIGIN AND NATURE OF NONPRICE COMPETITION *

ARTHUR R. BURNS

The discussion of the more important policies adopted as an escape from price competition has revealed that these policies almost all tend to deflect such rivalry as remains into what has been called "nonprice competition." These policies are directed towards uniformity in the offer prices of sellers; those who seek to increase their volume of business must attract buyers by some means other than price cutting. Price leadership, price stabilization, and geographical price discrimination often lead, therefore, to nonprice competition. Sharing the market, however, stands upon a different basis; all opportunity of obtaining an increased share in the market is cut off; if nonprice competition occurs, it must be mutually neutralizing in its effect upon movements of business between firms. Thus although the increasing use of mechanical methods of production has made it possible to produce more homogeneous products, it has not, as might have been expected, brought the actual market more into conformity with the perfectly competitive market. Greater homogeneity has been attained by the conversion of a large proportion of the costs of production into overhead costs; unused plant is frequently present; in consequence price competition between sellers has been modified in various ways and rivalry has been diverted into the channels of nonprice competition.

Nonprice competition has, however, been stimulated by other influences. The knowledge of buyers is imperfect; frequently they

* From Arthur R. Burns, *The Decline of Competition* (New York: McGraw-Hill Book Co., Inc., 1936), pp. 372-75. Copyright 1936, reprinted by permission of the McGraw-Hill Book Company, Inc. Mr. Burns is Professor of Economics at Columbia University.

are fully informed concerning neither the offers of sellers, other than those with whom they have customarily dealt, nor the full range of varieties of products available. Sellers, in consequence, are induced to incur expenditure in order to make this information available. Sellers have also come into possession of knowledge of methods of influencing the attitudes of buyers to each product, of changing their estimates of the utility of a product. Sellers no longer accept the total demand for their product (at each price) as beyond their control. Realizing that they can influence the allocation of expenditure by individuals without reductions in price and thus increase the total demand for their product, and that efforts in this direction may be very profitable, they have, in some industries, so emphasized selling activities that the cost of selling exceeds the cost of manufacturing.

The distinction between price competition and nonprice competition needs to be made with some care. The simplest and most direct basis of distinction may seem to be to regard price competition as a means of attempting to attract business by sacrificing revenue from sales, and to include under nonprice competition all methods of attracting business involving additions to expenditure. This basis of distinction is, however, unsatisfactory; it involves entanglement in the bookkeeping practices of sellers. A seller may sell at a lower price to retailers who provide a special window display for his product, than to other retailers; it is unsatisfactory to classify this method of obtaining business as price competition when expenditures on advertising out of revenues obtained by charging a uniform price to all are classified as nonprice competition.[1] A more satisfactory basis of distinction between price and nonprice competition is suggested by the separation of costs into production and selling costs, selling costs being those costs which alter the demand curve and production costs those which do not.[2] Any deductions from the basic price made with the object of in-

[1] It is possible, of course, to regard the discounts for window displays as expenditure which is, for convenience and economy, offset in settlement against revenue due from the same persons. But this adjustment is much more difficult to make when the price charged to all retailers is set on a lower level than would otherwise be charged, with the object, not of permitting a retail price lower than would otherwise prevail, but of increasing the margin of the retailer and thereby enlisting his services in pressing the commodity upon buyers.

[2] E. H. Chamberlin, *Theory of Monopolistic Competition* (Cambridge, Mass.: Harvard University Press, 1933), p. 123. Professor Chamberlin alternately defines this distinction in the statement that "those [costs] made to adapt the product to the demand are costs of production; those made to adapt the demand to the product are costs of selling" (*ibid.*, p. 125). Cf. also D. Braithwaite, "The Economic Effects of Advertisement," *Economic Journal*, 1928, p. 17.

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creasing the demand for the product over what it would have been at that price (and all other prices) without such deductions, as well as all actual payments with the same object, are selling costs arising out of nonprice competition. Production costs include not only costs of manufacturing and management but also costs of distribution (such as costs of transportation, handling, and delivery) which add utility to the physical commodity by making it more capable of satisfying wants.

Difficulties naturally arise in applying this criterion. If a price of ten cents is reduced to nine cents by making an advertising allowance of one cent, the dealer may contribute out of his resources of equipment or labor to furthering the sale of the product at the old price. But he may regard the allowance as a price reduction and reduce his resale price; it may be necessary, therefore, to regard the allowance as partly price and partly nonprice competition. "Freight absorption" involving sales for delivery at some points yielding (at the point of production) less than sales at points nearer to the seller's point of production cannot be regarded as a cost incurred to increase demand at the existing mill price; it must be regarded as discriminatory price cutting. . . .

Expenditures on nonprice competition fall into three classes which have very different consequences, viz., (*a*) expenditures aimed at changing the attitudes of buyers to a commodity broadly similar to that sold by rivals and unaffected by considerations of style; (*b*) competition in quality and service, involving expenditure aimed at attracting buyers by offering incidental advantages not offered by rivals; (*c*) expenditure incurred to bring about changes in style which increase the demand for the commodity.

[26]

Excerpt from B.S. Yamey, *Resale Price Maintenance*, 3–22.

Introduction

Resale price maintenance is a restrictive business practice: it restricts or eliminates price competition in the distributive trades affected. In the typical situation it raises retail prices and narrows consumers' choice; and by widening the gross margins of distributors without at the same time eliminating all forms of competitive behaviour, it attracts more labour and other resources into distribution. It is not surprising, therefore, that in the post-war period there has been growing public and official concern with r.p.m. in all Western countries which are experiencing strains on their national resources in conditions of full or over-full employment.

Further, since r.p.m. bears directly on retail prices, the practice provokes mounting criticism in periods of inflation, more particularly when, as is increasingly the vogue, governments attempt to introduce and implement general prices and incomes policies. It should be clear, however, that the relationship between r.p.m. and the process or the control of inflation is tenuous. The practice has little, if any, influence on *total* national money expenditure or on the availability of *total* national resources. It is relevant to the economy-wide issues of inflation mainly in so far as it affects the flexibility of particular prices. Moreover, the act of eliminating r.p.m. may create a situation of price reductions which may be favourable tactically for particular measures of policy to control or to contain inflation. But this in its nature can be no more than a once-for-all possibility. One cannot abolish r.p.m. every few years. The real importance of r.p.m., or of its prohibition or reduction, lies in its effects on the prices of particular goods and the deployment of resources between different economic activities. It is to be judged primarily in these terms, seen in the wider context of competition in industry and trade, and also in the yet wider context of the interests of consumers.

RESALE PRICE MAINTENANCE

Distributors' Margins and Retail Prices

The proposition that r.p.m. raises retail prices and retailers' margins turns on the proposition that competing retailers do not have uniform costs per unit of sales.[1] Inter-firm differences in cost provide the basis for price competition; the independent pricing decisions of competing retailers and the responses of consumers lead to the elimination of the least efficient retailers, to the expansion (including the establishment) of more efficient firms, and to the availability of a range of competing offerings of different combinations of retail prices and services to meet the varied and varying preferences of consumers. Resale price maintenance obstructs the process of price competition. It therefore keeps distributive margins and resale prices higher than they would otherwise be and involves more resources in distribution.

The basic proposition is sometimes called in question. Thus it has been suggested or implied that the costs of retailing (or of distribution) are almost wholly fixed, and the elimination of r.p.m. would mean simply that the prices and gross margins of certain articles are reduced, while those of other articles are raised, with the average level of prices and gross margins left much the same as before. In other words, it seems that consumers as a body have to bear a given quantum of retailing costs whatever happens; the presence or absence of r.p.m. affects merely the distribution of the total costs among the various goods bought by them. If this were so, the case for the abolition or reduction of r.p.m. would be weakened, though even then it is not obvious that the distribution of the total costs with r.p.m. is in any sense better than that without r.p.m. But the thesis of the fixed quantum of distribution costs, or any analysis implying its validity, is untenable on several grounds.

The thesis of the fixed quantum seems to be derived from the proposition that the costs of running a particular shop are almost all in the nature of fixed overheads. This proposition is, however, seriously inadequate, if only because a large part of the gross profits of small-scale retailing consists of the earnings of the proprietors; and this element is not fixed. But even if, *arguendo*, the proposition be accepted that the running costs of any one shop is a fixed quantity, it would not follow that each shop has the same level of fixed costs.

[1] For convenience in exposition, the discussion proceeds in terms of 'retailers' rather than the more embracing and strictly more relevant 'distributors'. The argument applies, *mutatis mutandis*, also to 'wholesalers'.

INTRODUCTION: THE MAIN ECONOMIC ISSUES

Location, density of shopping traffic, range and quality of services, scale of operation and efficiency are among the factors affecting the level of the (assumed) fixed costs, both absolutely and also relatively to turnover. The thesis would apply only if the abolition of r.p.m. and the restoration of retail price competition did not affect the number, distribution, size, and ownership of shops and the level of services provided in them. A prediction of such an outcome cannot be entertained seriously in the representative case. Retailer supporters of r.p.m. would certainly not subscribe to it: and several of the standard arguments for r.p.m. reject implicitly the thesis of the fixed quantum of retailing costs. The thesis would have relevance, indeed, only if retailing were different from all other forms of business activity, because it postulates both that the requirements of customers are uniform and also that the unit costs of suppliers are uniform, or sufficiently so as to rule out the possibilities of competitive substitution.

It is the disregard, in a system of r.p.m., of differences in consumer requirements and preferences and of differences in costs of retailing which points to the conclusion that r.p.m. keeps the retail prices of the goods in question higher than they would otherwise be. By stopping price competition in retailing, the practice impedes the replacement of high-cost by low-cost forms of retailing, and of less efficient by more efficient firms. The brake on price competition is especially severe on the development of new forms of retailing.[2]

Although one can assert with some confidence that, typically, r.p.m. raises retail prices and retail gross margins above their competitive levels, it is more difficult to measure the extent of these effects. Thus it is difficult to predict with confidence by how much prices and margins would fall in a particular trade if r.p.m. were to be abolished in that trade. Examination of such matters as the shopping behaviour of consumers or the costs and profits of retailers engaged in the trade in question would be of little help in guiding the prediction, because they are conditioned by the practice of r.p.m. itself. Moreover, it is not easy to determine the effects of r.p.m. on prices and margins even

[2] The last three paragraphs are taken, with minor changes, from my 'Resale Price Maintenance: Issues and Policies', *Three Banks Review*, December 1960. The *Review* is a publication of the Royal Bank of Scotland, Glyn Mills & Co. and Williams Deacon's Bank Limited, to whom I am obliged for permission to use material from this article in the present chapter.

after it has been terminated in a particular trade. The more immediate effect on prices can, of course, be observed; but then it is not always easy to distinguish the more lasting price reductions from the more spectacular price cuts executed by high-spirited and publicity-conscious retailers released from the irritations of r.p.m. As, however, the date of the end of r.p.m. recedes into the distance, the particular effects of r.p.m. and of its termination are increasingly difficult to gauge. Thus the relative costs of factors of production used in manufacturing and in distribution do not stand still; consumer preferences change; and the general price level rises or falls for reasons quite unconnected with r.p.m. or its absence.

Even where, miraculously, there are no disturbances of this kind, time-series of retailers' margins, in particular, may contain pitfalls for the incautious. These arise from the fact that different retailing enterprises engage to a greater or lesser extent in what can be called wholesaling activities. Thus, broadly, large-scale retailing enterprises tend to do all or most of their own wholesaling, buying direct from manufacturers, whilst the smallest-scale retailing enterprises use extensively the services of independent wholesalers; and there are endless gradations between the two poles.[3] The gross margin of a retailing enterprise, which in reality is a vertically integrated wholesaling-retailing enterprise, refers to a span of economic activity which is wider than that of a more strictly retailing enterprise. Censuses of distribution do not ask vertically integrated distributors to split their over-all margin, the difference between final selling prices and initial buying prices, into separate 'retail' and 'wholesale' margins (and if they were required to do so, the split would be arbitrary). Hence a census average of gross margins in a trade is an average of individual margins which do not relate to the same span of activity. This would not matter if, over time, the relative proportions of different categories of retailer remained substantially unchanged and if retailers in a particular category did not change their degree of vertical integration with wholesaling. But these conditions are not likely to be satisfied, except within the limits of very short periods. Indeed, if the analysis of r.p.m. and its effects is correct, the abolition (or introduction) of r.p.m. would be likely to change the relative proportions of different categories of retailer and might also induce

[3] For this reason, among others (specially the relative expenditures on sales promotion), comparisons of retailers' margins on price-maintained brands and distributors' own brands are uninformative.

changes in the extent of vertical integration engaged in by some of them. In such a situation, a recorded change in *average* retail gross margins would be difficult if not impossible to interpret. Paradoxically, the average retail gross margin of a group of retailers may increase even where the average gross margin of each constituent category of retailers has fallen.

To escape from the complications introduced by the passage of time, it may seem more promising to make price comparisons between pairs of territories, only one of which has r.p.m. in a particular trade.[4] Such comparisons are valid for the purpose of measuring the effects of r.p.m. only where the two territories are substantially the same in all relevant respects such as density of population, consumer preferences, costs of factors of production, intensity of manufacturers' advertising, and taxes on goods and transactions, and different only in respect of the presence and absence of r.p.m. There is therefore not much point in comparisons between, say, the United States and the United Kingdom. The United States itself, however, provides scope for more relevant comparisons, since some states allow r.p.m. and others do not. As Professor Hollander shows, several studies on this basis have been made; and he discusses their findings and limitations (pp. 95 to 98, below).

Confidence in the proposition that r.p.m. has the typical effect of raising retail prices would be severely shaken if such studies, when carefully conducted in appropriate situations, found in favour of r.p.m. In fact, they have not done so. Confidence would be even more seriously shaken if consumers could be seen to be behaving in a way which contradicted the proposition. Such behaviour would be where consumers living in an area without r.p.m. in a particular trade bought the goods in question from a near-by area with r.p.m. (and otherwise reasonably comparable in relevant respects) either by making systematic shopping forays into that area or by mail-order buying from retailers operating from that area. There is no evidence of this kind. There is, on the contrary, evidence of inter-area trade in the opposite direction, as the proposition would lead one to expect. Professor Hollander refers to the importance of such trade in the United States; and Mr Boggis draws attention to analogous developments undermining r.p.m. in some countries within the European Economic Community.

[4] The complication considered in the preceding paragraph applies equally to comparisons of gross margins in pairs of territories.

RESALE PRICE MAINTENANCE

The preceding discussion has been conducted explicitly in terms of the typical working of r.p.m. This qualification is necessary because special circumstances are conceivable in which r.p.m. may have little or no effect on prices, and yet more exceptional circumstances in which it may serve to keep retail prices (and margins) *lower* than they would be otherwise. The conceivable exceptions considered here fit into the general analysis; they depend on the presence of conditions in which price competition (or, indeed, any form of competition) among retailers for some reason or other is weak or non-existent regardless of whether or not there is r.p.m.

Competitive pressures may be low in a trade because of its peculiar structure: the 'shopping' mobility of consumers of the goods may be so low and their total demand so limited that the retailers in each locality are few in number, uncompetitive in behaviour, and protected from the competition of retailers in other localities. The abolition of r.p.m. in such situations may leave prices, margins and the structure of retailing virtually undisturbed. In this connection the role of resale price *recommendations* (not enforced by the manufacturers) may be important. They may provide a framework of retail pricing to support and to strengthen the non-competitive tendencies and behaviour of the retailers. But this is not the inevitable effect of resale price recommendations. In other circumstances they may encourage and accentuate retail price competition. It is interesting that in Ireland the retailer in some cases is not allowed to advertise his own selling price together with that of the manufacturer's recommended price: the purpose of the prohibition is to mitigate price competition. (See below, pp. 229 and 245. See also pp. 57 to 60, for the Canadian experience. The Danish and Swedish chapters also include discussions of price recommendations.)

The most exceptional and unusual situations are those in which the termination of r.p.m. may cause the retail prices of the goods in question to be higher than otherwise by causing retail margins (for a given span of distributive activity) to be higher than otherwise. Consider a situation in which each retailer has an effective monopoly of the sale of goods in his market area, and does not have to fear actual or potential competition. The resale prices he would set in his own interests might conceivably be higher than those which the manufacturer would wish to set in his own interests. The retailer's optimal resale prices would reduce sales below the level which would be optimal for the manufacturer. Should the manufacturer be able

to prescribe fixed resale prices for his goods, he could force the retailer away from his optimal position towards his own optimal position, reduce the retailer's profits and increase his own. Here, r.p.m. would reduce retail prices. The manufacturer, it may be noted, could achieve the same object not by fixing his resale prices but by prescribing and enforcing *maximum* resale prices; and yet another method would be the stipulation of a minimum sales quota for each local monopolist stocking his goods, a device which, applied effectively, would indirectly allow the manufacturer to set an upper limit to the retailer's price.

The situation has been considered above in terms of local retail monopolies. The analysis is largely applicable also to local groups of retailers agreeing effectively to concert policy on pricing, as in the Swedish tobacco trade discussed by Professor af Trolle (p. 142, below). It is unlikely, however, that such situations (and those discussed in the paragraph preceding the last) are common in a modern economy, though national differences in the density of population preclude broad generalisations. Many shoppers are mobile and have easy access to important market centres. Mail-order business also breaks down the power of local monopolies or monopoly groups. The important and persistent cases are likely to be those where entry into retailing or changes in the number of retailers handling a particular important brand of products are controlled restrictively, either as a by-product of official control over the use of sites for business purposes or in pursuance of a manufacturer's policy of marketing through selected exclusive dealers, each with a sales territory assigned to him. A possible example in which both influences are combined is noted briefly in the chapter on the United Kingdom (p. 292, note 89, below).

Retail Price Competition and Manufacturers' Price Competition

The economics of r.p.m. are generally discussed in terms of its effects on competition in the distributive trades. The practice may, however, also affect price competition among manufacturers. Although it is difficult to assess the significance of r.p.m. in this respect, it nevertheless seems improbable that r.p.m. is less important for its effects on competition in distribution than for its effects on competition in production.[5]

[5] For a different assessment of the position (in the United Kingdom) see letter

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The control of resale prices may affect price competition in manufacturing industry in various ways. The most direct way is where manufacturers who have a price agreement sell part of their output direct to consumers or users and part to resellers. For the agreement to be effective, the manufacturers have to fix both their price to the trade and their (higher) price to be charged on direct sales to users. Their reseller customers are, however, also their competitors in relation to sales to some or all final buyers. Insistence on r.p.m. ensures that the resellers, whatever their wishes may be, in effect become parties to the price agreement. If r.p.m. were not practised manufacturers would tend to become involved in price competition in sales to final consumers or users. This competition might, in turn, weaken or undermine the entire price agreement, and so provoke price competition among the manufacturers both in sales to resellers as well as in sales to final consumers or users. Whether such disruptive effects need be serious in the long run depends on the considerations discussed at the end of this section.

Resale price maintenance can serve the purposes of a group of manufacturers acting together in restraint of competition by being part of a bargain with associations of established dealers to induce the latter not to handle the competing products of excluded manufacturers. Collective policies of r.p.m. have often been part and parcel of agreements among manufacturers, as is illustrated in several of the succeeding chapters.[6]

Resale price maintenance may affect competition in manufacturing in a different way. By eliminating or restricting price competition in retailing, it may prevent or retard the growth of large firms in retailing, and thereby inhibit the building-up or strengthening of bargaining power which could be used to disrupt price agreements or non-collusive oligopolistic price structures in supplying industries. A weaker explanation sometimes encountered (for example, pp. 279 and 281, below) is that large distributors who possess bargaining power are under less pressure to use it when their own margins and selling prices are protected by r.p.m.; the removal of r.p.m. and the release of price competition in retailing force them to use their bargaining strength to the full. This explanation is weaker because

by Mr N.Kaldor, *The Times*, 17 March 1964: '. . . The really important issue is not price competition in retailing, but price competition among manufacturers'.

[6] See also L.G.Telser, 'Why Should Manufacturers Want Fair Trade?', *Journal of Law and Economics*, 3 (1960), pp. 86–105.

it assumes that large distributors would not use their bargaining power unless they themselves were subject to competitive stress.

Retail price competition may provoke price competition in manufacturing in yet another way. Especially in industries in which there are only a small number of manufacturers, non-competitive price policies (whether the result of formal or informal price agreements or the result of individual restraint induced by the logic of an oligopolistic situation) may be subverted by price competition in the retail markets. This comes about when price competition among retailers has the effect of causing changes in the relative sales (market shares) of the brands of the members of the oligopoly group. Such changes occur whenever retail price-cutting is not spread evenly over all brands, but favours the sale of some brand(s) at the expense of the others. Changes in relative sales, if they are material and also not ephemeral, are likely to weaken the restraint of the particular manufacturer(s) who is at a disadvantage; and to that extent concealed (or even open) reductions in trade prices are likely to be offered to selected (or all) retailers in attempts to recapture business. Should retail price-cutting shift from brand to brand, the resulting instability in market shares may well disrupt established non-competitive price policies and make it difficult to resurrect them. Furthermore, experience of increased instability in the market shares of the leading brands brought about by retail price competition may embolden each individual manufacturer to seek to increase his share (and not merely to maintain a given share) by concealed and possibly selective reductions in his trade price. Each of them may reckon that his competitors might desist from retaliation for some time because they might be more likely to ascribe an observed change in market shares to disturbances emanating independently in the retail market than to infer that he was attracting more business by cutting his price to retailers; and price competition would ensue from such (mutually frustrating) tactics. In general, the wider the 'normal' expected fluctuations in market shares, the less likely are price agreements or non-competitive price policies to be effective.[7]

[7] See G.J.Stigler, 'A Theory of Oligopoly', *Journal of Political Economy*, 72 (1964), pp. 44–61, for a formulation and general discussion of this proposition.

Kaldor's explanation of the way in which r.p.m. helps maintain manufacturers' non-competitive price policies is as follows: 'In transactions within the trade there are so many ways of making a price concession – through concealed discounts, the offer of easier credit terms, etc. – that no manufacturer will feel "safe",

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Resale price maintenance, by eliminating one external source of instability, to that extent tends to support price agreements or pricing arrangements in manufacturing industry. It is extremely difficult to judge the importance of this effect in general terms.[8] To give much importance to it is to imply a high degree of 'instability' in price competition in retailing. Instability of this kind does not seem to be a prominent feature of retail price competition.[9]

The Supply of Retail Services

That r.p.m. restrains price competition in retailing, and that it sometimes has the effect of restraining price competition in manufacturing industry, constitute two serious charges against the practice. In defence of the practice, on the other hand, a number and variety of claims in favour of r.p.m. have been developed over the decades, ranging from the claim that it (in specific cases or in general) is necessary to protect certain trading or manufacturing interests from price competition to the claim that price competition as such harms the interests of consumers as well as of the economy at large. Many

and each will be tempted to shade his price to the wholesaler or retailer in order to forestall his competitors. Hence the importance of resale price maintenance to the manufacturer – it is the only sure guarantee against price wars.' (Letter in *The Times*, 17 March 1964.) This explanation, however, is inadequate, since it does not explain what it is that makes the individual manufacturer feel more 'safe' with r.p.m. than without it.

[8] It may be noted that manufacturers can avoid the generation of this effect without r.p.m.; it is sufficient if each stipulates that retailers may not re-sell this brand at a *higher* price than that of any competing brand in the same price-bracket, though they are free individually to set their resale prices at any level. American cigarette manufacturers are reported to have used such a device in the inter-war period. (See R.B.Tennant, *The American Cigarette Industry* [New Haven, 1950], pp. 312–4; W.H.Nicholls, *Price Policies in the Cigarette Industry* [Nashville, 1951], e.g. p. 118.) Where individual manufacturers choose to market their products through exclusive dealers (who do not stock competing lines), this device would not serve this purpose. More generally, it would seem that exclusive-dealing channels of distribution are likely to enhance the 'disruptive' effects of retail price competition on manufacturers' price policies.

[9] The sale of cut-price 'specials' for very short periods is a feature of the grocery trade in some countries. Since each bout is short-lived, however, and since bouts are frequent, market shares are not likely to be disturbed seriously or long enough to upset manufacturers' price policies. It is interesting that r.p.m. has rarely been strong in the grocery trade at times when the practice was available to manufacturers.

of these claims are referred to in one context or another in the remaining chapters of this book, and Professor af Trolle presents an analysis of a number of them in his chapter. No exhaustive catalogue or examination will be attempted here. The multiplicity and multiformity of the claims are not correlated with the cogency and weight of the case for r.p.m. It is more to the point to consider a group of claims which have analytical interest and have some bearing on a number of types of market situation which have been prominent in the devising and implementation of official policies towards r.p.m. These claims all relate to the supply of services by retailers to consumers. They are not as a rule applied by their advocates indiscriminately to all situations in which r.p.m. is or has been practised, but only to those situations in which particular retail services are, more or less plausibly, considered to be important for consumers or for manufacturers of the goods in question.

The underlying idea is that, because r.p.m. ordinarily widens their gross margins and safeguards them against erosion, retailers are in a position to give more services to their customers together with the sale of the goods; and that, because competition (apart from price competition) is not prevented by r.p.m., retailers are obliged to give more services in order to win or retain customers. Thus consumers have the benefit of competition in the form of more retail services; they pay for them in the prices of the goods they buy.

While this effect of r.p.m. in enlarging the provision of retail services seems indisputable, it is difficult to establish that it is in the consumers' interest, and less difficult to suggest that it is unlikely to be in their interests when the general implications of r.p.m. are kept in mind. First, in order to show that the effect is in the interests of consumers, it must be shown that in the absence of r.p.m. consumers would not be supplied with the same volume of services on the same or better terms if it is assumed (as the claim must assume) that the consumers in some collective sense want that volume of services and are prepared to meet its costs. Second, it is realistic to suppose that not all consumers want the same amount and kinds of retail services; some of them would be willing to do without certain services if they were free to choose from among several competing combinations of retail price and type and quantity of retail service. With r.p.m., they cannot exercise such a choice and express their preferences. In this respect, r.p.m. involves the subsidisation of some consumers by those others who in fact do not use their 'share' of the services for which

they pay. Third, while it is reasonable to say that r.p.m. increases the total expenditure by retailers (and hence by consumers) on retail services, it does not follow that the practice is effective in increasing expenditure on any particular kind of retail service. In so far as a particular claim for r.p.m. is that it augments the supply of a certain kind of service desired by consumers, there is a gap in the reasoning. The retailer is not required by r.p.m. as such to use his additional margin to increase his expenditure in any particular way. Should a manufacturer wish to see the supply of a certain kind of retail service increased, he may well find it more effective to achieve this end by rewarding only those retailers who carry out his wishes. He can do this by confining the sale of his goods to retailers who do what he wants or by giving better terms to those retailers who meet his requirements. (He can also himself supply the 'retail' services to consumers, regardless of the retail outlet patronised.) These practices are independent of a policy of r.p.m.

The analysis sketched above can be applied to various categories of retail service. Services such as credit, delivery, installation and maintenance provide no support to the case for r.p.m. There is no difficulty in the way of retailers to make separate charges, by charging higher prices, for those of their customers who want the services. Services such as the availability of selections, demonstrations and stocks of goods and the provision of advice to customers are, however, in a different category. They cannot be charged for separately; and those who use the services need not buy the goods from the shops which incur the costs of providing them, but may patronise, instead, shops which avoid these costs and reduce their prices accordingly. Thus r.p.m., it seems, would stimulate the supply of such before-sales services, to the benefit of those consumers who want them and would be prepared to meet their costs (and to the disadvantage of those other consumers who do not want them). The difficulty remains, however, that r.p.m. by itself cannot ensure that pre-sales services will be increased: it is possible, and sometimes highly probable, that competing retailers will find it in their interests to use the additional margin of r.p.m. on other services such as more convenient and more expensive locations, more attractive decor and amenities and more credit.

Two more specialised claims for r.p.m., in which the subsidisation effect of r.p.m. is recognised to be at the heart of the matter, require

some discussion. The first claim is the tendency for r.p.m. to increase the number and the geographical dispersion of shops selling the goods or brands in question. In this way retail service to consumers is improved: they have more convenient access to more numerous sources of supplies. It may be thought that, in the absence of r.p.m., the number and dispersion of outlets would be adjusted more accurately to the varied and varying preferences of consumers, and that the optimal amount of shopping convenience would ensue, with each consumer in the position of being able to choose from among a variety of combinations of retail price and shopping convenience. At this point, however, the subsidisation effect has to be introduced specifically into the analysis. It is conceivable that, without r.p.m., some localities may be denuded of shops selling the particular goods. If many of the consumers living in the locality find it profitable to buy their needs elsewhere, too few less mobile consumers may be left to support the stocking of the goods in that locality.[10] Resale price maintenance would be in the interests of such groups of consumers if, given the uniformity of retail prices imposed by r.p.m., more of the consumers would prefer to buy locally and hence make profitable the stocking of the goods. The advantages gained by these groups would, however, be paid for by the rest of the consumers.[11]

Although both claims involve the subsidisation of some consumers at the expense of others, the second claim differs from the preceding one in that it refers to subsidisation of the sale of some goods at the

[10] Or the price may be higher (than under r.p.m.) because of higher costs per unit on a small turnover or because of the local monopoly power of the retailer.

[11] The relationship between r.p.m., the number of shops, and prices is examined formally, in the context of a simple analytical model, in a recent article: J.R. Gould and L.E.Preston, 'Resale Price Maintenance and Retail Outlets', *Economica*, 32 (1965), pp. 302–12. In terms of this model it is shown that, given certain assumptions about the monopolist manufacturer's marginal costs and/or the effect of r.p.m. on the elasticity of demand for his product, r.p.m. may reduce the manufacturer's trade price and even his retail price below their levels in the absence of r.p.m. *Ibid.*, pp. 310–11. For an earlier, analytically less formal, discussion, see T.H.Silcock, 'Some Problems of Price Maintenance', *Economic Journal*, 48 (1938), pp. 41–51, esp. p. 50.

It may be noted that, in the absence of r.p.m., a manufacturer could increase the number and dispersion of outlets stocking his brands by subsidising particular outlets which would otherwise not find it worthwhile to be in business or to stock his brands. It may be said then that such subsidisation would be discriminatory. It would not, however, in principle, be more discriminatory than r.p.m. in relation to various categories of consumers.

expense of others, not some places of sale at the expense of others. Thus it is sometimes said that while r.p.m. in certain trades raises the retailers' gross margins on some articles (the fast-moving popular articles), it enables the gross margins on other articles (the articles in less popular demand) to be lower then they would be otherwise. The retailer obtains a satisfactory average gross margin, even though the sale of the less popular articles is subsidised. Two comments are in point. The first comment is that it is not clear why the manufacturers of the goods in question should find it desirable or expedient to bring about this cross-subsidisation. It is not clear, that is, why those manufacturers who are predominantly interested in the sale of the popular items should wish to burden them with higher retail margins and prices than they thought necessary for *their* effective distribution, simply in order to facilitate the reduction of the gross margins on less popular items, predominantly supplied by other manufacturers. It would appear, therefore, that the cross-subsidisation can at best be expected to be found in those situations in which all or most of the manufacturers are as interested in the production of the slow-moving as they are in that of the fast-moving lines: specialists concentrating on the latter would have no reason to follow the pricing pattern voluntarily. Even where this condition were satisfied, it is not obvious that the implied cross-subsidisation would be profitable for the manufacturers. The purposive adoption of pricing practices to achieve cross-subsidisation would seem to require, further, that the manufacturers have some non-pecuniary interest in the production and sale of the slow-moving lines.

The second comment echoes a point made earlier, namely, that r.p.m. as such does not ensure that the additional margin allowed, *ex hypothesi*, to retailers on the sale of the fast-selling lines will be used by them to stock and sell the slow-selling lines, the sale of which, again *ex hypothesi*, has been made unprofitable for them. The implied over-generous rewarding of the resale of the fast-sellers would seem to encourage retailers to concentrate on their sale; and would achieve the unintended subsidisation of retailers rather than the intended subsidisation of slow-selling lines. It is of interest, in this connection, to refer to the earlier temporary exemption of the book trade in Sweden from the prohibition of r.p.m. (discussed below, pp. 129 to 132). The argument based on the cross-subsidisation of slow-selling books by fast-selling books was accepted by the authorities; but, in addition to r.p.m. in the book trade, there were other trade

regulations which required booksellers to take copies of all new books at their publishers' discretion and on consignment terms. Such regulations helped to ensure that whatever cross-subsidisation was inherent in resale pricing was made more effective in achieving a desired purpose.

In the preceding discussion in this section various claims made for r.p.m. have been examined critically and their limitations explained. The criticism cannot, however, establish that there can be no special cases in practice, and that, where the special effects of r.p.m. are achieved, they cannot in some sense be in the interests of consumers collectively. Indeed, the possibility of special cases perhaps helps to explain why only one country, Canada, has yet seen fit to prohibit all r.p.m. without any exceptions or provisions for possible exceptions, although Sweden will soon have reached the same result by a different route. The more common post-war approach, exemplified in the policy measures considered in several of the succeeding chapters, is to provide, in some way or other, for exceptions from the general principle that r.p.m. is against the public interest. It must be a matter of judgment whether it is worth while to devise elaborate arrangements for the discovery and exemption of exceptional cases.

Loss Leaders

In an undated manuscript, published after his death, Alfred Marshall wrote that 'there must always be a good many movements of retail price which stand in no relation to changes in the wholesale trade [meaning, in the context, changes in the wholesale price], or are even in opposite directions'. Included in the examples given is that of the individual retailer who 'may move the price of a certain commodity apparently at random, when he or a neighbouring rival begins or ceases to make it a catch article'. Marshall concluded: 'But all cases of this kind put together cover a very small part of the transactions of life: and it would not have been worth while to call attention to them at all, were it not that they have furnished sensational material to writers who have argued that retail prices generally are arbitrary and scarcely at all subject to economic law.'[12] Similarly, but in a different context, it would not have been worth while to consider here, how-

[12] 'Retail Prices', in A.C.Pigou (ed.), *Memorials of Alfred Marshall* (1925), pp. 356–7.

ever briefly, the practice of loss-leader selling were it not for the prominent place it frequently has assumed in public discussion and political debate on the subject of r.p.m. The attention paid to loss-leader selling in those discussions of r.p.m. has been wholly disproportionate to the intrinsic importance and quantitative extent of loss-leader selling (unless it is meaninglessly equated with all retail price competition).

The charges laid at the door of loss-leader selling – and constituting defences of r.p.m. – are directed against three types of effect it is said to have. First, it is said to jeopardise the goodwill of established brands, to disturb their steady supply and thereby raise costs, affect their ready availability or prejudice the maintenance of their quality. Second, it is said to be a device by which large-scale retail firms can drive their competitors out of business and so establish effective monopoly positions. Third, it is said that consumers, as shoppers, are confused and misled by loss-leader selling. Having listed the charges, it will not be necessary to go into an examination of them, either analytically or in terms of the available evidence. Professor Skeoch's chapter includes an extended discussion of the loss-leader question, and several of the other chapters also refer to it. Moreover, the tendency in public policy, as demonstrated in the chapters which follow, is to divorce the issue of r.p.m. from that of loss-leader selling. Thus where loss-leader selling is considered to be a problem requiring control in the public interest, it is being treated separately without involving the retention of r.p.m. This is both reasonable and sensible, because r.p.m. is at best a crude instrument with which to attempt to curb or to control loss-leader selling. It is more questionable whether it is necessary, in the interests of consumers or of the economy as a whole, to have any controls over loss-leader selling, since these controls may have unintended consequences to the detriment of the public.

The Stability of Resale Price Maintenance

It is sometimes said that r.p.m. is inherently unstable in the sense that it creates the conditions for its own eventual collapse or weakening. The long-run forces of competition will destroy or circumvent r.p.m. even where this is practised by manufacturers who are intent on retaining it and enforcing it. The thesis is that those distributors who do not need or want the higher margins given by r.p.m. will in

due course disrupt the system by selling the goods at the lower margins and retail prices made possible by their own efficiency or low-cost methods of operation.

The historical evidence on the stability of r.p.m. is not easy to interpret. On the one hand there is the record of effective r.p.m. in several branches of trade in the United Kingdom and some other countries: r.p.m. has prevailed for half a century or more, with at most occasional temporary setbacks, despite changes in general economic conditions, in methods and organisation of production, in the organisation of distribution, in the share of price-maintained goods in the total trade, and in the methods of enforcement open to price-maintaining manufacturers. There is ample evidence, that is, of persistent and enduring r.p.m. There are, on the other hand, several instances of the collapse of r.p.m. The United States provides some major examples. But it is not simple in such cases to decide the relative contributions to the breakdown made by the long-run pressures of competition and by the peculiar difficulties of enforcement caused by the multiplicity of jurisdictions and differences in state policies which played into the hands of price-cutting retailers. Professor Hollander reviews this problem in his chapter. Differences in national policies towards r.p.m. in the member-countries of the European Economic Community may result in similar problems of enforcement, as Mr Boggis explains (p. 214). In yet other examples it is not easy to decide whether the withdrawal of r.p.m. by certain manufacturers was due to a recognition of its imminent collapse under the stress of changing competitive conditions in the distributive trades, or whether it reflected little more than voluntary submission to changes in public opinion. The German experience of extensive breakdown of r.p.m. does, however, seem to be unambiguous, although the law and its administration made some contribution.

Assuming no such disturbance as a change in the law, r.p.m. in a particular trade may be expected to crumble or to decline in importance in certain circumstances, whatever the manufacturers may prefer. Thus where one or a few important retailers, who already have built up a large volume of trade in the price-maintained goods, decide to cut their prices, the manufacturers may find it expedient to give way. Historically, however, situations of this type do not seem to have been common. The threat to r.p.m. has not usually come from well-established large-scale retailing firms with a large stake in

the distribution of the particular goods. More frequently, it seems, the threat has come from newly established firms wishing to try new methods of distribution or different price policies. (This is also true, though perhaps to a smaller extent, of the exploitation of the new opportunities opened up by an official prohibition of r.p.m., as is illustrated, for example, by Mr Kjølby in his chapter on Danish experience.) But threats from such a source are generally not serious. Newcomers to the retail trades tend to be operating on a small scale initially. Moreover, because of r.p.m., they cannot quickly build up a large volume of business in the goods while conforming to the resale price conditions, and then change their spots by becoming price-cutters. The most likely threat in this context possibly comes from large-scale retailers who are well-established in some branch of trade operating on a low-cost low-price basis and who then turn their attention, making use of their goodwill, to the price-maintained lines of another branch of trade. But even they would be up against the difficulty of building up a large volume of sales in the new lines when they, in the process, cannot offer competitively attractive price reductions on them; and until they have achieved such sales, their power to challenge the manufacturers is limited.

Another set of circumstances in which r.p.m. may be expected to crumble is where low-cost retailers can gain access to competing goods which they can market as their own 'private' brands and which they can price as they like. A necessary condition is that entry into the industry manufacturing the goods is not difficult, whether it is entry by an independent manufacturer or by the distributor. Where entry is relatively easy, in fact r.p.m. has rarely been important, as in many food and textile products. Resale price maintenance has been strong where private branding is handicapped, if not rendered impossible, by the presence of significant economies of large-scale production, by the need for large-scale sales promotion for the success of a brand, or by institutional constraints such as the laws relating to patents and copyright. Moreover, in so far as r.p.m. inhibits the establishment and growth of large competitively aggressive retailing firms, it makes it more difficult for private brands to be developed in effective opposition to the national brands. The ease of entry into private branding is in part a matter of the scale of requirements.

It should be added that the development of private brands by one or several large distributors need not always undermine r.p.m. In

some situations it may be the most profitable course for the private-branding distributor(s) not to price his private brands so competitively as to force the manufacturers of the national brands to jettison their r.p.m. or to reduce their prices. The private brander may find it expedient to act as if he were part of the oligopoly group. Alternatively, a large-scale distributor may find it profitable to refrain from having private brands – even where this would present no difficulties on the supply side – if the manufacturers of the national brands recognise that he presents a threat by granting him specially favourable terms on the purchase of their price-maintained brands.

The Diversity of Policies

Whatever the strength of the long-run forces of competition and economic change might be, it is apparent that governments which have been worried about r.p.m. in the post-war period have not been prepared to rely on those forces either to cause the breakdown of the practice or the moderation of its exercise. For one reason or another, to achieve one purpose or another, various governments have intervened with compulsory prohibition, curtailment or amendment of r.p.m. A variety of policies has ensued. The differences reflect a number of considerations, pressures and influences. There have been differences in the assessment of the economic effects of alternative policy measures; differences in the weights attached to various interest groups; differences in legal institutions and traditions; and differences in the approach to monopoly and restrictive arrangements generally. The seven chapters which follow have as one main theme the development of policy towards r.p.m. in a number of countries, and they illustrate a diversity of approach and method.

Despite the diversity of policies adopted and the differences in the economies in which they are applied, three conclusions emerge with some clarity. First, the termination of r.p.m. does not automatically and in every instance lead to price competition in distribution. Competitive pressures are sometimes low: there is little of them to be released. Further, it requires careful ancillary provisions in the law to ensure that something akin to r.p.m. does not operate after the practice itself has been formally discontinued. Moreover, where apprehensions about the depredations allegedly caused by loss-leader selling have given rise to measures to combat such activities, it is possible that 'genuine' price competition may be blunted in the pro-

cess. Second, the termination or breakdown of r.p.m. has generally made it possible or easier for major changes to take place in the structure of retailing and wholesaling; it has facilitated or accelerated the kind of change which has been to the advantage of consumers. Third, subject to one or two documented exceptions (for example, p. 142, below), consumers do not seem to have been hurt by the termination of r.p.m. along the lines predicted by supporters of the practice, and frequently they have derived substantial advantages from such a course.

[27]

Excerpt from Terence Nevett and Ronald A. Fullerton (eds), *Historical Perspectives in Marketing: Essays in Honor of Stanley C. Hollander*, 177–92.

11

Lessons from Retailers' Price Experiences of the 1950s

Roger Dickinson

Introduction

There is a rich body of experience in the 1950s with respect to retailer-related pricing that suggests important lessons for today. Indeed, pricing was an important facet of the discipline of marketing in the 1950s. This was only natural. Economics is often perceived as the mother discipline of marketing, and pricing had been and is central to the study of economics. Indeed, much effort in the 1950s was directed to integrate economic pricing theory with marketing and business practice. (Hollander 1957; Adelman 1957; Lanzillotti 1958; Hawkins 1954.)

There were MBA courses on pricing in the 1950s. Indeed, one reviewer of this chapter suggested that more was taught about pricing then and it was probably better taught. Two prominent marketing academics in the 1950s, Alfred R. Oxenfeldt and Ralph Cassady, Jr. (see citations, including F. E. Brown), spent major portions of their research on pricing.

This chapter considers six prominent events, theories, and/or developments related to retail pricing in the 1950s:

1. The policies of Lingan A. Warren of Safeway
2. Price wars
3. Merchandise Management Accounting
4. The Marketing Concept
5. The Wheel of Retailing
6. Fair Trade

Interesting in themselves, they have important ramifications for present day marketing.

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1950s—Background

Most of what was taught in business schools of the 1950s can be seen as before the Gordon-Howell (1959) and Pierson (1959) reports; i.e., the "quantitative" revolution had not yet occurred. Most of the intellectual efforts in business disciplines emanated from the major colleges of business. Most leading marketing academics were economists. The key analytical tools were traditional statistical analysis, "marginal analysis," and the Keynesean model of macroeconomics. For most research purposes, the basic assumption of academics in the 1950s was that short-term profitability was the most obvious and most important proxy variable to long term profitability, although strategy was generally seen as the dominator of short term activities (Oxenfeldt 1960; Lanzillotti 1958). Clearly, however, if among alternatives being considered, the long-term scenarios are perceived to be uninfluenced by the selection of an alternative, the short-term aspects are correctly seen as all important.

Marginal analysis was the key sophisticated decision tool of management, dominating subjects like managerial economics and capital budgeting (Dean 1951a; 1951b). Marginal analysis was applied economic theory of the nineteenth century. But, interestingly, Hicks (1985) suggests that Alfred Marshall considered three time periods as relevant (see Addendum). Over time, economics and business academics adopted the short- and long-term dichotomies for most analysis.

Much of the world of goods and services was simpler in the 1950s (Kahn 1987). Thus, retailers were more likely then to be pricing products that were directly competitive with products of other suppliers. Further, the consumer was more likely to know the price since there were fewer stockkeeping units to keep in mind while shopping. And the housewife of the period had more time to devote to shopping-related activities. Consequently, retailers often had less discretion in the pricing of individual items.

Department store retailers in the 1950s were often seen as positioned by price from the perspectives of consumers, retail executives, and suppliers. For example, Macy's price policy in 1951 on non-fixed priced goods was as follows (Kahn 1987): undersell by 6 percent stores that offered service and credit (e.g., Gimbel's and A&S); match the price of stores that offered service but no credit (Alexander's, Ohrbach's); oversell by 5 percent stores that offer neither credit nor service (S. Klein). Thus in the 1950s in New York City, these were from low to high (Sears was a minor factor but had a presence in areas such as Brooklyn):

S. Klein

Korvette (a bigger factor in the late 1950s)

Alexanders

Traditional department stores—Macy and Abraham & Straus

Lord & Taylor, Saks

Part of this was conscious "positioning" by retail executives or what Cassady (1961) might call niching. Of course there had always been "automatic" niching in retail in the sense that the purchase votes of the consumer had interacted with the information systems of the store. The more the customer bought in the store, the more that customer counted in the creation of merchandise assortments, price lines, and the like of that store.

Some legal "events" of the 1950s are now described. The Federal Trade Commission's first guidelines against bait advertising were issued effective in 1959 (Howard 1983, 217). The FTC offered "Guides Against Deceptive Pricing" (Monroe 1979, 209). In 1953, the Supreme Court decision in the Automatic Canteen Case outlined some conditions under which the buyer of a firm can be held in violation of section 2F of the Robinson-Patman Act (Howard 1983, 201). Aspects of fair trade decisions are offered later in the paper.

Pricing over the product life cycle had been proposed (Dean 1950).

Particular note should be made of the heterogeneity of retailing (Hollander 1958). Merchants and service enterprises differed in such as size, capitalization, commodities, and services offered, organizational structure, consumer appeals, expense rates, unit of sale, competitive pressures, and motivations (2). Each of these might influence pricing. Extreme care should therefore be exercised in generalizing from a small number of instances or events within retailing.

Episodes of Pricing in the 1950s

Lingan A. Warren and Safeway

Lingan A. Warren of Safeway (about $2 billion in sales in the mid-fifties) was a vigorous price competitor.[1] Warren believed unequivocally in meeting all the prices of competitors at all times. He held that in the grocery business if a firm takes more than a modest profit, it is made vulnerable to competition. He regarded Safeway as a vehicle for the scientific distribution of food. In his Safeway capacity, he fought such potential "deterrents" to competition as coupons, retail milk price laws, trading stamps, supplier allowances, and vendor direct store deliveries.

In the context of today, Warren's fight against supplier couponing is particularly noteworthy. He felt that coupons prevented the consumer from

making the most prudent choice and that the amount paid by the manufacturer did not cover the cost to the retailers of handling the coupons. One way he fought coupons was by honoring any coupon for a product that Safeway carried whether the customer actually purchased the product. Other retailers also have done this, provoking numerous legal actions.

Warren, embroiled in numerous legal skirmishes, was displaced in 1955. He might be perceived as the most aggressive price cutter in the food business thus far in this century. Many would suggest Warren acted irrationally on many price matters. But it should be noted that Warren had a compensation arrangement related to profitability, so there presumably were strong profit considerations in his aggressive actions (Kahn 1987). Clearly, over time the idea of meeting all the prices of competitors became out of date (Cassady 1962; Brown and Oxenfeldt 1972) as supermarkets evolved, were introduced to the "science of pricing," and met competitors in most markets mainly on an overall image dimension (Bhasin and Dickinson 1987; Bernhaut 1987).

Discussion. An aggressive price policy communicated "effectively" to relevant competitors and potential competitors can strongly influence industry behavior, including discouraging entry of firms into markets. The adoption of high margins by Safeway (an investment philosophy) after the departure of Warren apparently facilitated the growth of low-price-oriented firms such as Lucky Stores. In the early 1970s, the aggressive pricing of Pathmark and others in the Northeast blunted the expansion of A&P's Warehouse Economy Outlet (WEO) later to become Where Economy Originates (Nagle 1987). A key executive of the Jewel corporation suggested that their Jewel T "experiment" was only successful in those geographic areas where their pricing was not met (American Collegiate Retailing Association 1980). In the Dallas metroplex, Jewel T was met in price item for item by Skaggs, Safeway, and Kroger as Jewel T opened.

Price Wars

Price wars are not easily defined. Cassady (1963, 2) suggests that a price war is an engagement involving two or more vendors seeking to achieve a goal that each is determined to attain and in which rival vendors, using price as a weapon, make successive countermoves in an attempt to gain an advantage or resist any advantage gained by the other. The essence is head-on conflict. Cassady (1964, 11) maintains that a price skirmish is a type of competitive-price encounter that only lasts a short time and that only involves a small segment of a market.

In the 1950s, there were numerous price wars in gasoline (Cassady and Jones 1951; Cassady 1956, 1957a, 1957b, 1963; Howard 1956, 361). In-

deed, Cassady devoted a fair portion of his research to the study of price wars among various types of retail and service outlets. Cassady (1963, 49) lists nineteen merchandise categories relevant to price wars. These include gasoline, food, department stores, motels, poker parlor lunches, and taxi service (Cassady 1962, 154 footnote 7; 1957a, 1957b, 1964).

The department store war of 1951 deserves specific mention (Cassady 1957a). Macy had the policy of charging 6 percent less than stores that offered service and credit except on price-fixed items. The Gimbel motto was "Nobody—But Nobody Undersells Gimbel's." The Schwegmann court decision in 1951 (Schwegmann Brothers v. Calvert Distillers Corporation 341 US 384) freed Macy from certain price restrictions. It chose to price 6 percent less. Other stores, e.g., Bloomingdale's, Gimbel's, Abraham and Straus, and Namm's joined in the fray. The war continued for six or so weeks, although the war did not end suddenly. There was no clear-cut explanation of how the war was ended.

An interesting by-product of this war was that department stores learned that suppliers would give substantial price concessions for the potential of volume (Osterweis 1986). Price concessions from suppliers, of course, were commonplace in the early 1930s (Lebhar 1963). But post–World War II price discounts to retailers were not common for department stores (Osterweis 1986).

Discussion. Price wars are likely when: firms or industries have heavy inventories; there is excess capacity; a competitor is trying to expand; there has been a sudden change in market conditions; there has been a decline in demand; a firm is trying to dominate a market; and/or the technological mix has changed substantially (Cassady 1963, 51–52). Thus, price wars can be used by managements to achieve strategic objectives, e.g., gain market share or upset "inevitable" competitive outcomes (Cassady 1963; Cassady 1964, 12; Bhasin and Dickinson 1987). Price wars may hurt, help, or be neutral with respect to society and the competitive environment (Cassady 1963). Price wars can be the inadvertent outcome of a series of actions taken by competitors, e.g., a price skirmish may "degenerate" into a war (Cassady 1964). Wars can result from defensive actions taken by firms with respect to a new competitor (Cassady 1964, 12). Price wars participated in by Safeway during the Warren tenure were apparently defensive in nature (Cassady 1964, 109–11; Kahn 1987).

Everyday low prices that are perceived as low by potential entrants into a market may even help prevent price wars, in that entrance into markets may be forestalled. Clearly aggressive price policies and reputations can have strategic connotations.

In addition to reflecting the strategy of the firm and the personalities of the participants, the literature suggests that price wars will be sporadic in

that they come and go frequently (Howard 1956, 361). The wars are more common in certain competitive configurations than in others. An example is that, to the consternation of elected representatives from New York state, gas wars were mainly conducted on the New Jersey side of the New York-New Jersey bridges and tunnels. The New Jersey configuration of gas stations was more conducive to aggressive price competition. Cassady (1957b, 366) suggests that deep price cuts by one competitor might bring a price war to a head promptly. Further, deceit and the dissemination of falsehoods may be useful in attaining tactical superiority (Cassady 1957b, 366). In addition, price actions on weekends (or odd hours) may be less likely to bring competitive responses because firm offices may be closed (Cassady 1964, 13).

A particularly interesting aspect of the interaction among competitors during price wars is the signalling that occurs. For example, in one market a move by a competitor, reacting to a reduction of another, to reduce its price to cost often indicated not only an acceptance of the challenge but also a willingness to fight to the finish (Cassady 1964, 13). Blanking out of signs after heavy price competition may indicate a willingness to increase prices (Cassady 1964, 13).

Insights from the literature may be useful in understanding elements of the food and gas price wars of today. Further, the extra-value couponing activities of supermarkets focus competition on price. And some executives see extra value couponing as an instrument in a price war (Bhasin and Dickinson forthcoming). To the extent that price wars injure all competitors, Cassady's admonition to managers—"Don't let your dollars become angry"—may be useful (Cassady 1963, 54).

Merchandise Management Accounting (Direct Profitability per Unit)

Department store competition in the middle and late 1950s was characterized as intertype competition (a term coined by E. T. Grether). Discount stores like Korvette became threats to the traditional department store (Barmash 1981).

Merchandise Management Accounting (MMA) was the application of the principles of marginal analysis to retail decision making at the level of the item (a refrigerator), specific event (advertising), or activity (increased sales activity). The focus of the effort was to develop contribution to overhead per unit of merchandise sold and relate that contribution to a management decision with respect to such as space, advertising, sales, and price. The initial thrust was in terms of price (McNair and May 1957). The analysis was supposed to reflect whether and/or by how much department stores should lower prices and whether the discount stores were losing money at the prevailing prices of discount stores (May 1986). MMA was developed

during the 1950s. Malcolm McNair interacted with executives of the National Retail Merchants Association to propel MMA (with the help of Arthur Andersen and Robert Jones of that firm) to national status (*Journal of Retailing*, 1958).

Despite great efforts by J. L. Hudson in Detroit, Goldblatts in Chicago, and others, MMA failed for many reasons (Dickinson 1966). Korvette opened a large unit across the street from the major unit of Abraham and Straus in Brooklyn in 1956. A&S "met" or "beat" the prices of Korvette for strategic reasons, i.e., to preserve its illustrious base store. This action set the pace for the reaction of other department stores to Korvette's entry in other markets, e.g., G. Fox in Hartford. Thus, survival dominated shorter-term considerations and MMA became irrelevant for its initially conceived purposes.

Discussion. MMA was suspect for various reasons, including that standard costs may be inappropriate in developing marginal costs; the interrelationships of sales (and costs) of items could not be established; the problems attendant to the differential value of "rent" for various departments and parts of departments could not be resolved; and there was no accepted way of developing an imputed interest on inventory (Dickinson 1966).

"Profitability" per item was of limited value for department stores. "Unprofitable items" were often necessary to fill out merchandise selections. While the rule that 20 percent of your items will often account for 80 percent of your sales may be exaggerated and/or distorted, clearly selecting or eliminating items in a merchandise classification in a department store by a rule such as maximizing contribution to overhead of a unit of merchandise was no guarantee of optimality or even reasonableness.

Further, optimizing "profitability" in the short term is just one proxy variable that might be used to develop or foster long-term profitability. Indeed, any one measure of short term profitability is deficient in some respects. Key measures of short-term profitability in retailing would, for most purposes, be with respect to three dimensions: space, inventory, and labor. Measures of these three only have claim to short term "optimality" if the decision maker is willing to make substantial assumptions, e.g., the dollar value of the inventory cannot be increased. For most purposes, a balance is relevant in the same sense that decisions with respect to inventory turn require a balance (Duncan, Hollander, and Savitt 1983, 269).

The value of direct profitability per item to supermarkets today, the new version of MMA, is less obvious (Curhan and Dickinson 1986). Clearly, all the theoretical shortcomings are there. The practical value of item direct profitability for supermarkets is another matter.

The Market Concept

The marketing concept has essentially been an academic phenomenon, at least from the retail perspective. Indeed, the marketing concept generally

increased the perceived role of the supplier in the channel. The marketing concept has many antecedents, but GE is often given the credit (Barksdale and Darden 1971). Historically, it has emphasized the importance of the customer or consumer; the integrating facets of the marketing mix; and short-term profitability as a key goal i.e., as a substitute for market share battles (Bell 1966; Oxenfeldt 1966). Lanzillotti (1958) suggested that A&P, Kroger, and Sears used market share as their most important goal in the 1950s.

The marketing concept has been much criticized in recent years for such as: having a short term orientation, impairing innovation, leading to poor social consequences, and having negative organizational implications. In the light of the increasing power of the retailer (Stern 1986) and the multiplicity of goals related to "optimization" (Dickinson, Herbst, and McCormack 1986), it appears that implementation of some interpretations of the marketing concept leads to unfortunate ramifications.

Discussion. The leading impact of the "traditional" interpretation of the marketing concept on price was to suggest to suppliers that they give up their market share wars and pursue short-term profitability as the key proxy variable to long-term profitability. The severe beatings given our corporations in international markets has led to a reassessment of short-term profitability as the key proxy for long-term profitability.

The influence of various interpretations of the marketing concept appears strong even today. On one view, it illustrates the potential for inducing the cooperative solution in the prisoner's dilemma (Axelrod 1984). Today, the same suggested cooperative solutions are seen in the context of the reaction of trade groups to extra-value couponing, i.e., let's get out of these. It may also indicate the ease with which myths can be propagated in an unsuspecting academic community.

The Wheel of Retailing

The wheel of retailing has endured a number of years and has spawned a large number of articles. Hollander's (1960) interpretation of McNair's (1958) wheel emphasized low price and low cost as key ingredients of entrepreneurial formulations in creating new forms of retailing. This theory, despite articulated exceptions, was consistent with the perceived importance of price as a method of niching in retailing in the 1950s and before. Further, the wheel may be useful in describing the development and/or demise of retail forms such as the Levitz innovation, discount catalogue store, the super appliance store, and the various forms of the warehouse concept.

The wheel highlighted the word-of-mouth advantages inherent in developing a dramatic new form of retailing; underlined the inevitability of cost

increases and the dangers inherent in the inevitable trade-up policy that historically has been management's reaction to increasing costs and/or lack of sales growth; and emphasized the lack of success of large firms in the important area of creating new forms of retailing. The wheel also communicated the often-reflected inevitability of cycles (Dean 1950; Hirschman 1982; Schlesinger 1986). Thus, the excitement attendant to the new form had to diminish and therefore the word-of-mouth advertising advantage had to be lost—sometime (Dickinson 1983). The entrepreneurial advantages of the creator of the new firm were dissipated as communication within the firm became more difficult, the incentives for the entrepreneur decreased, and executives retired. The low retail price advantage was diminished as intertype competition became secondary to intratype competition. Thus the stage was set for a new twist of the wheel. If an entrepreneur could create a dramatic new retail form, she, too, would have the competitive advantages that accrued to the initial firm. Competition could not only be destructive (Schumpeter 1951), but could offer an inherent set of competitive advantages attendant to particular kinds of entrepreneurship—those that create retail forms that are very different from those existing.

Discussion. Whatever the validity of elements of the wheel,[2] clearly there are valuable lessons that can be learned by students of retailing.

1. High prices offer an umbrella under which competition can prosper, e.g., the Lingan A. Warren position.
2. Watching costs is critical. Increases in costs are normal and in retailing set in process a spiral of increasing prices that can destroy competitive advantage.
3. New forms of competition by retailers are often difficult to classify and react to.
4. In success lie the seeds of failure.

Further, the wheel presents a logic for periods of great growth in a new form of retailing. Changes in various activities may be seen as staccato bursts (Boulding 1981; Anderson 1986; Dean 1950).

Fair Trade

Many retailers in the 1930s and later were not content with the status of the market system. In 1936, the Supreme Court approved the principle of state fair-trade laws, including the nonsigner clause under which all retailers were bound to the established minimum resale price even when just one retailer signed the agreement (Howard 1983, 148).

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Federal statutes in 1937 and 1952 exempted fair-trade resale-price maintenance from the Sherman and Federal Trade Commission Acts (Cassady, 1962, 225). Retail trade groups, primarily drug and liquor stores, were quite active in fostering fair trade practices (Howard 1983, 148; Cassady 1962, chapter 8). The effectiveness of fair trade varied with the product line (Hollander 1958, 4).

Going into the 1950s, fair trade was dominant. But during the 1950s, the importance of fair trade diminished (Cassady 1962, 227). The Schwegmann Case invalidated the nonsigner clause and, as suggested previously, set off the department store price war of 1951. In 1952, Congress passed the McGuire act with the intention of legalizing the nonsigner principle in interstate trade (Cassady 1962, 225). But there were many reversals and Cassady (1962, 227) relates that by March 1961, the laws of eighteen states were either struck down completely or had been invalidated in part by a decision that the nonsigner clause was unconstitutional.

Discussion. In many instances there is an inherent conflict between the ramifications of a negatively sloped demand curve to the manufacturer and incentives offered to or demanded by resellers to support a particular line of merchandise or service. The conflict is that, all things being equal, a negatively sloped demand curve implies that a lower price to the consumer will increase the quantity demanded and thus manufacturers generally favor a lower price to the consumer. But often the margin generated by the lower consumer price for the resellers does not offer sufficient economic incentive to satisfy the resellers.

Without legislation or the intercession of groups (e.g., retail trade groups), it would appear natural for many products to fall into two groups from the perspective of the reseller. One group of products has to be handled by the retailer (although it need not always be displayed) because failure to handle a product risks losing customers to other retailers, e.g., Heinz catsup. The assortment of goods at the store is fundamental to the convenience of the customers; and if that mix is not satisfactory to the customer, there is no customer loyalty (Kahn 1987). Thus, the key criterion for the retailer deciding to handle such goods is the relationship of the sales of the item to the sales of other items in the context of what might be termed customer loyalty to the retailer. A second group of items, services, and the like is purchased by the retailer only if the specific goods of a supplier adds directly to the contribution to overhead of the retailer, i.e., selection has to directly increase perceived incremental profits. Some would call these two artificial dichotomies, the push and pull distribution systems.

Fair trade was designed to force a minimum satisfactory (for the resellers) high price for items that were "demanded" by consumers. As such, the manufacturer selected a price that hopefully would permit the product to be

handled by "all" relevant retailers at a price that was almost satisfactory to "all." The manufacturer had to "police" the marketplace if fair trade was to be enforced (Cassady 1962, chapter 8).

The death of fair trade was the Consumer Good Pricing Act of 1975, which removed the federal exemptions of fair trade from the antitrust laws (Howard 1983, 149). The channel problems that "caused" fair trade, in general, remain. For goods or services that are not "pulled" through the channel by the consumers, the supplier must find a way to "hold" prices to consumers. The established method is to sell only to resellers who willingly maintain price, e.g., a push distribution system. But there are other ways conducive to price maintenance, e.g., consignment, the various forms of franchising (Hollander 1958, 6–7), and coercion (Kaikati 1987).

Overall Observations

1. Much is to be learned from examining the history of pricing. It would appear (as will be suggested in the next set of observations) that a careful study of pricing would have helped business and academia avoid many pitfalls.

2. The dominance of the long-term aspects in the pricing decision were clearly understood in the 1950s (Lanzillotti 1958), although, as in the eighties, investigators and business individuals usually select either the long-term or the short-term as the basis for analysis. The more pressing problem in the 1980s would appear to be the effective integration of the short and the long term aspects of pricing. (See Addendum.)

3. Many pricing activities of the fifties gave substantial warning to academics about the shortcomings of strictly quantitative measures, which for the most part were and are short-term. Thus, Warren's thrust can be related to the longer term. Price wars had market share and image connotations. Merchandise Management Accounting proved inadequate. The high prices generated in the wheel suggested a protective competitive umbrella under which entrepreneurs could flourish.

The quantitative "stampede" in academia, from a historical perspective, may partially indicate the obvious. In academia, even for Nobel laureates, there apparently is no penalty for being wrong. Walters (1987) suggests that it is doubtful whether any economist has ever been blackballed by the Swedish Academy even for the most egregious errors of simple analysis.

4. Price competition was active in many segments of the marketing and economic systems in the 1950s.

5. Retailers' perceived price competition was intense and difficult to identify in the 1950s. This may lend credence to Oxenfeldt's (1986) suggestion that retailers in all times feel that competition is intense.

6. Niching as a management tool is not new. Niching was clearly a part

of the fifties. And there has always been the automatic positioning as a result of the interaction of the votes of customers and the information systems of the retailers. It is clear, however, that society was not as affluent then as now and that the information systems, while often extensive, could not be "effectively" analyzed because the computer was not yet a tool. Thus, niching in the 1950s was primitive in today's terms.

7. Behavior of firms in an industry appears to depend heavily on the models of competitive behavior held by executives. Therefore, it would appear that substantial knowledge of the behavior of firms in particular markets is important for all executives (Grether 1968; Vaile, Grether, and Cox 1952).

Addendum—Time

The effective integration of time periods into decision making has plagued decision makers over the years, today, and in the fifties. Marshall (1961, vii) suggests that elements of time are at the center of the chief difficulty of every economic problem. Marshall's conception of time is continuous and yet capable of being divided for purposes of economic inquiry into periods of different lengths (Mitchell 1949, 77–8).

For demand, he apparently sees three periods—very quick changes (e.g., inclement weather), moderate-length, and long periods (Marshall 1961, 369-70). For supply, four time periods are considered–in sight; what can be produced with existing facilities; that which can be reproduction with new plants; and secular movements (378–79). Marshall (378–79), however, did emphasize in most of his analyses the short and long term.

Most economists have accepted the long-term–short-term periods or perhaps normal and subnormal periods. And in the context of economic analyses, this seems quite appropriate. During a subnormal period, there is no time for longer-run forces to work themselves out (Grether 1987). In sharp contrast, a normal period allows for such an outcome. However, in a business context, two periods may not be useful. Distinguishing among elements of short term may be important. The discount rates developed by capital budgeting to integrate net-after-tax cash flows of differing periods are not dependable for business purposes (Dickinson and Herbst 1983). Further, in retailing, businesses are just not optimizing for today (e.g., Little and Shapiro 1977). Thus, research that assumes optimization for today may be out of synchronization with goals of the firm related to other time periods.

The increasing sophistication of the tools of analysis available to executives makes the specification of time periods even more important for business entities. The long term has become more accessible to firms. While sophisticated capital budgeting techniques have failed as an overall top-

management decision integrating tool, proxy variables for the longer term, formalized into systems, e.g., the Boston Consulting Group model, makes the long term more accessible.

In some sense, there appear to be four different time frames relevant to business decision making, at least retail managements. (1) The immediate term—one day, one week; (2) the reference short-term period for which short-term profitability can be a useful proxy (or constraint) to the longer term, perhaps three months; (3) the longest time period for which modern planning tools are relevant; and (4) the period past that for which planning tools are relevant.

Notes

1. The bases for this section are Sheehan (1958); Robert Kahn, editor of *Retailing Today*; and E. T. Grether, University of California.

2. At least one retailing text does not emphasize the wheel. See Duncan, Hollander, and Savitt (1983).

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Part IV
Product

[28]

Excerpt from *Encyclopaedia of the Social Sciences*, **6**, 139–44.

FASHION. The meaning of the term fashion may be clarified by pointing out how it differs in connotation from a number of other terms whose meaning it approaches. A particular fashion differs from a given taste in suggesting some measure of compulsion on the part of the group as contrasted with individual choice from among a number of possibilities. A particular choice may of course be due to a blend of fashion and taste. Thus, if bright and simple colors are in fashion, one may select red as more pleasing to one's taste than yellow, although one's free taste unhampered by fashion might have decided in favor of a more subtle tone. To the discriminating person the demand of fashion constitutes a challenge to taste and suggests problems of reconciliation. But fashion is accepted by average people with little demur and is not so much reconciled with taste as substituted for it. For many people taste hardly arises at all except on the basis of a clash of an accepted fashion with a fashion that is out of date or current in some other group than one's own.

The term fashion may carry with it a tone of approval or disapproval. It is a fairly objective term whose emotional qualities depend on a context. A moralist may decry a certain type of behavior as a mere fashion but the ordinary person will not be displeased if he is accused of being in the fashion. It is different with fads, which are objectively similar to fashions but differ from them in being more personal in their application and in connoting a more or less definite social disapproval. Particular people or coteries have their fads, while fashions are the property of larger or more representative groups. A taste which asserts itself in spite of fashion and which may therefore be suspected of having something obsessive about it may be referred to as an individual fad. On the other hand, while a fad may be of very short duration, it always differs from a true fashion in having something unexpected, irresponsible or bizarre about it. Any fashion which sins against one's sense of style and one's feeling for the historical continuity of style is likely to be dismissed as a fad. There are changing fashions in tennis rackets, while the game of mah jong, once rather fashionable, takes on in retrospect more and more the character of a fad.

Just as the weakness of fashion leads to fads, so its strength comes from custom. Customs differ from fashions in being relatively permanent types of social behavior. They change, but with a less active and conscious participation of the individual in the change. Custom is the element of permanence which makes changes in fashion possible. Custom marks the highroad of human interrelationships, while fashion may be looked upon as the endless departure from and return to the highroad. The vast majority of fashions are relieved by other fashions, but occasionally a fashion crystallizes into permanent habit, taking on the character of custom.

It is not correct to think of fashion as merely a short lived innovation in custom, because many innovations in human history arise with the need for them and last as long as they are useful or convenient. If, for instance, there is a shortage of silk and it becomes customary to substitute cotton for silk in the manufacture of certain articles of dress in which silk has been

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the usual material, such an enforced change of material, however important economically or aesthetically, does not in itself constitute a true change of fashion. On the other hand, if cotton is substituted for silk out of free choice as a symbol perhaps of the simple life or because of a desire to see what novel effect can be produced in accepted types of dress with simpler materials, the change may be called one of fashion. There is nothing to prevent an innovation from eventually taking on the character of a new fashion. If, for example, people persist in using the cotton material even after silk has once more become available, a new fashion has arisen.

Fashion is custom in the guise of departure from custom. Most normal individuals consciously or unconsciously have the itch to break away in some measure from a too literal loyalty to accepted custom. They are not fundamentally in revolt from custom but they wish somehow to legitimize their personal deviation without laying themselves open to the charge of insensitiveness to good taste or good manners. Fashion is the discreet solution of the subtle conflict. The slight changes from the established in dress or other forms of behavior seem for the moment to give the victory to the individual, while the fact that one's fellows revolt in the same direction gives one a feeling of adventurous safety. The personal note which is at the hidden core of fashion becomes superpersonalized.

Whether fashion is felt as a sort of socially legitimized caprice or is merely a new and unintelligible form of social tyranny depends on the individual or class. It is probable that those most concerned with the setting and testing of fashions are the individuals who realize most keenly the problem of reconciling individual freedom with social conformity which is implicit in the very fact of fashion. It is perhaps not too much to say that most people are at least partly sensitive to this aspect of fashion and are secretly grateful for it. A large minority of people, however, are insensitive to the psychological complexity of fashion and submit to it to the extent that they do merely because they realize that not to fall in with it would be to declare themselves members of a past generation or dull people who cannot keep up with their neighbors. These latter reasons for being fashionable are secondary; they are sullen surrenders to bastard custom.

The fundamental drives leading to the creation and acceptance of fashion can be isolated. In the more sophisticated societies boredom, created by leisure and too highly specialized forms of activity, leads to restlessness and curiosity. This general desire to escape from the trammels of a too regularized existence is powerfully reenforced by a ceaseless desire to add to the attractiveness of the self and all other objects of love and friendship. It is precisely in functionally powerful societies that the individual's ego is constantly being convicted of helplessness. The individual tends to be unconsciously thrown back on himself and demands more and more novel affirmations of his effective reality. The endless rediscovery of the self in a series of petty truancies from the official socialized self becomes a mild obsession of the normal individual in any society in which the individual has ceased to be a measure of the society itself. There is, however, always the danger of too great a departure from the recognized symbols of the individual, because his identity is likely to be destroyed. That is why insensitive people, anxious to be literally in the fashion, so often overreach themselves and nullify the very purpose of fashion. Good hearted women of middle age generally fail in the art of being ravishing nymphs.

Somewhat different from the affirmation of the libidinal self is the more vulgar desire for prestige or notoriety, satisfied by changes in fashion. In this category belongs fashion as an outward emblem of personal distinction or of membership in some group to which distinction is ascribed. The imitation of fashion by people who belong to circles removed from those which set the fashion has the function of bridging the gap between a social class and the class next above it. The logical result of the acceptance of a fashion by all members of society is the disappearance of the kinds of satisfaction responsible for the change of fashion in the first place. A new fashion becomes psychologically necessary, and thus the cycle of fashion is endlessly repeated.

Fashion is emphatically a historical concept. A specific fashion is utterly unintelligible if lifted out of its place in a sequence of forms. It is exceedingly dangerous to rationalize or in any other way psychologize a particular fashion on the basis of general principles which might be considered applicable to the class of forms of which it seems to be an example. It is utterly vain, for instance, to explain particular forms of dress or types of cosmetics or methods of wearing the hair without a preliminary historical critique. Bare legs among modern women in

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summer do not psychologically or historically create at all the same fashion as bare legs and bare feet among primitives living in the tropics. The importance of understanding fashion historically should be obvious enough when it is recognized that the very essence of fashion is that it be valued as a variation in an understood sequence, as a departure from the immediately preceding mode.

Changes in fashion depend on the prevailing culture and on the social ideals which inform it. Under the apparently placid surface of culture there are always powerful psychological drifts of which fashion is quick to catch the direction. In a democratic society, for instance, if there is an unacknowledged drift toward class distinctions fashion will discover endless ways of giving it visible form. Criticism can always be met by the insincere defense that fashion is merely fashion and need not be taken seriously. If in a puritanic society there is a growing impatience with the outward forms of modesty, fashion finds it easy to minister to the demands of sex curiosity, while the old mores can be trusted to defend fashion with an affectation of unawareness of what fashion is driving at. A complete study of the history of fashion would undoubtedly throw much light on the ups and downs of sentiment and attitude at various periods of civilization. However, fashion never permanently outruns discretion and only those who are taken in by the superficial rationalizations of fashion are surprised by the frequent changes of face in its history. That there was destined to be a lengthening of women's skirts after they had become short enough was obvious from the outset to all except those who do not believe that sex symbolism is a real factor in human behavior.

The chief difficulty of understanding fashion in its apparent vagaries is the lack of exact knowledge of the unconscious symbolisms attaching to forms, colors, textures, postures and other expressive elements in a given culture. The difficulty is appreciably increased by the fact that the same expressive elements tend to have quite different symbolic references in different areas. Gothic type, for instance, is a nationalistic token in Germany, while in Anglo-Saxon culture the practically identical type known as Old English has entirely different connotations. In other words, the same style of lettering may symbolize either an undying hatred of France or a wistful look backward at madrigals and pewter.

An important principle in the history of fashion is that those features of fashion which do not configurate correctly with the unconscious system of meanings characteristic of the given culture are relatively insecure. Extremes of style, which too frankly symbolize the current of feeling of the moment, are likely to find themselves in exposed positions, as it were, where they can be outflanked by meanings which they do not wish to recognize. Thus, it may be conjectured that lipstick is less secure in American culture as an element of fashion than rouge discreetly applied to the cheek. This is assuredly not due to a superior sinfulness of lipstick as such, but to the fact that rosy cheeks resulting from a healthy natural life in the country are one of the characteristic fetishisms of the traditional ideal of feminine beauty, while lipstick has rather the character of certain exotic ardors and goes with flaming oriental stuffs. Rouge is likely to last for many decades or centuries because there is, and is likely to be for a long time to come, a definite strain of nature worship in our culture. If lipstick is to remain it can only be because our culture will have taken on certain violently new meanings which are not at all obvious at the present time. As a symbol it is episodic rather than a part of the underlying rhythm of the history of our fashions.

In custom bound cultures, such as are characteristic of the primitive world, there are slow non-reversible changes of style rather than the often reversible forms of fashion found in modern cultures. The emphasis in such societies is on the group and the sanctity of tradition rather than on individual expression, which tends to be entirely unconscious. In the great cultures of the Orient and in ancient and mediaeval Europe changes in fashion can be noted radiating from certain definite centers of sophisticated culture, but it is not until modern Europe is reached that the familiar merry-go-round of fashion with its rapid alternations of season occurs.

The typically modern acceleration of changes in fashion may be ascribed to the influence of the Renaissance, which awakened a desire for innovation and which powerfully extended for European society the total world of possible choices. During this period Italian culture came to be the arbiter of taste, to be followed by French culture, which may still be looked upon as the most powerful influence in the creation and distribution of fashions. But more important than the Renaissance in the history of fashion is the effect of the industrial revolution and the rise of the common people. The former in-

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creased the mechanical ease with which fashions could be diffused; the latter greatly increased the number of those willing and able to be fashionable.

Modern fashion tends to spread to all classes of society. As fashion has always tended to be a symbol of membership in a particular social class and as human beings have always felt the urge to edge a little closer to a class considered superior to their own, there must always have been the tendency for fashion to be adopted by circles which had a lower status than the group setting the fashions. But on the whole such adoption of fashion from above tended to be discreet because of the great importance attached to the maintenance of social classes. What has happened in the modern world, regardless of the official forms of government which prevail in the different nations, is that the tone giving power which lies back of fashion has largely slipped away from the aristocracy of rank to the aristocracy of wealth. This means a psychological if not an economic leveling of classes because of the feeling that wealth is an accidental or accreted quality of an individual as contrasted with blood. In an aristocracy of wealth everyone, even the poorest, is potentially wealthy both in legal theory and in private fancy. In such a society, therefore, all individuals are equally entitled, it is felt, so far as their pockets permit, to the insignia of fashion. This universalizing of fashion necessarily cheapens its value in the specific case and forces an abnormally rapid change of fashion. The only effective protection possessed by the wealthy in the world of fashion is the insistence on expensive materials in which fashion is to express itself. Too great an insistence on this factor, however, is the hall mark of wealthy vulgarity, for fashion is essentially a thing of forms and symbols not of material values.

Perhaps the most important of the special factors which encourage the spread of fashion today is the increased facility for the production and transportation of goods and for communication either personally or by correspondence from the centers of fashion to the outmost periphery of the civilized world. These increased facilities necessarily lead to huge capital investments in the manufacture and distribution of fashionable wear. The extraordinarily high initial profits to be derived from fashion and the relatively rapid tapering off of profits make it inevitable that the natural tendency to change in fashion is helped along by commercial suggestion. The increasingly varied activities of modern life also give greater opportunity for the growth and change of fashion. Today the cut of a dress or the shape of a hat stands ready to symbolize anything from mountain climbing or military efficiency through automobiling to interpretative dancing and veiled harlotry. No individual is merely what his social role indicates that he is to be or may vary only slightly from, but he may act as if he is anything else that individual phantasy may dictate. The greater leisure and spending power of the bourgeoisie, bringing them externally nearer the upper classes of former days, are other obvious stimuli to change in fashion, as are the gradual psychological and economic liberation of women and the greater opportunity given them for experimentation in dress and adornment.

Fashions for women show greater variability than fashions for men in contemporary civilization. Not only do women's fashions change more rapidly and completely but the total gamut of allowed forms is greater for women than for men. In times past and in other cultures, however, men's fashions show a greater exuberance than women's. Much that used to be ascribed to woman as female is really due to woman as a sociologically and economically defined class. Woman as a distinctive theme for fashion may be explained in terms of the social psychology of the present civilization. She is the one who pleases by being what she is and looking as she does rather than by doing what she does. Whether biology or history is primarily responsible for this need not be decided. Woman has been the kept partner in marriage and has had to prove her desirability by ceaselessly reaffirming her attractiveness as symbolized by novelty of fashion. Among the wealthier classes and by imitation also among the less wealthy, woman has come to be looked upon as an expensive luxury on whom one spends extravagantly. She is thus a symbol of the social and economic status of her husband. Whether with the increasingly marked change of woman's place in society the factors which emphasize extravagance in women's fashions will entirely fall away it is impossible to say at the present time.

There are powerful vested interests involved in changes of fashions, as has already been mentioned. The effect on the producer of fashions of a variability which he both encourages and dreads is the introduction of the element of risk. It is a popular error to assume that professional designers arbitrarily dictate fashion. They do so

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only in a very superficial sense. Actually they have to obey many masters. Their designs must above all things net the manufacturers a profit, so that behind the more strictly psychological determinants of fashion there lurks a very important element due to the sheer technology of the manufacturing process or the availability of a certain type of material. In addition to this the designer must have a sure feeling for the established in custom and the degree to which he can safely depart from it. He must intuitively divine what people want before they are quite aware of it themselves. His business is not so much to impose fashion as to coax people to accept what they have themselves unconsciously suggested. This causes the profits of fashion production to be out of all proportion to the actual cost of manufacturing fashionable goods. The producer and his designer assistant capitalize the curiosity and vanity of their customers but they must also be protected against the losses of a risky business. Those who are familiar with the history of fashion are emphatic in speaking of the inability of business to combat the fashion trends which have been set going by various psychological factors. A fashion may be aesthetically pleasing in the abstract, but if it runs counter to the trend or does not help to usher in a new trend which is struggling for a hearing it may be a flat failure.

The distribution of fashions is a comparatively simple and automatic process. The vogue of fashion plates and fashion magazines, the many lines of communication which connect fashion producers and fashion dispensers, and modern methods of marketing make it almost inevitable that a successful Parisian fashion should find its way within an incredibly short period of time to Chicago and San Francisco. If it were not for the necessity of exploiting accumulated stocks of goods these fashions would penetrate into the remotest corners of rural America even more rapidly than is the case. The average consumer is chronically distressed to discover how rapidly his accumulated property in wear depreciates by becoming outmoded. He complains bitterly and ridicules the new fashions when they appear. In the end he succumbs, a victim to symbolisms of behavior which he does not fully comprehend. What he will never admit is that he is more the creator than the victim of his difficulties.

Fashion has always had vain critics. It has been arraigned by the clergy and by social satirists because each new style of wear, calling attention as it does to the form of the human body, seems to the critics to be an attack on modesty. Some fashions there are, to be sure, whose very purpose it is to attack modesty, but over and above specific attacks there is felt to be a generalized one. The charge is well founded but useless. Human beings do not wish to be modest; they want to be as expressive—that is, as immodest—as fear allows; fashion helps them solve their paradoxical problem. The charge of economic waste which is often leveled against fashion has had little or no effect on the public mind. Waste seems to be of no concern where values are to be considered, particularly when these values are both egoistic and unconscious. The criticism that fashion imposes an unwanted uniformity is not as sound as it appears to be in the first instance. The individual in society is only rarely significantly expressive in his own right. For the vast majority of human beings the choice lies between unchanging custom and the legitimate caprice of custom, which is fashion.

Fashion concerns itself closely and intimately with the ego. Hence its proper field is dress and adornment. There are other symbols of the ego, however, which are not as close to the body as these but which are almost equally subject to the psychological laws of fashion. Among them are objects of utility, amusements and furniture. People differ in their sensitiveness to changing fashions in these more remote forms of human expressiveness. It is therefore impossible to say categorically just what the possible range of fashion is. However, in regard to both amusements and furniture there may be observed the same tendency to change, periodicity and unquestioning acceptance as in dress and ornament.

Many speak of fashions in thought, art, habits of living and morals. It is superficial to dismiss such locutions as metaphorical and unimportant. The usage shows a true intuition of the meaning of fashion, which while it is primarily applied to dress and the exhibition of the human body is not essentially concerned with the fact of dress or ornament but with its symbolism. There is nothing to prevent a thought, a type of morality or an art form from being the psychological equivalent of a costuming of the ego. Certainly one may allow oneself to be converted to Catholicism or Christian Science in exactly the same spirit in which one invests in pewter or follows the latest Parisian models in dress. Beliefs and attitudes are not fashions in their character of mores but neither are dress and orna-

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ment. In contemporary society it is not a fashion that men wear trousers; it is the custom. Fashion merely dictates such variations as whether trousers are to be so or so long, what colors they are to have and whether they are to have cuffs or not. In the same way, while adherence to a religious faith is not in itself a fashion, as soon as the individual feels that he can pass easily, out of personal choice, from one belief to another, not because he is led to his choice by necessity but because of a desire to accrete to himself symbols of status, it becomes legitimate to speak of his change of attitude as a change of fashion. Functional irrelevance as contrasted with symbolic significance for the expressiveness of the ego is implicit in all fashion.

EDWARD SAPIR

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[29]

PRODUCT PROLIFERATION IN THE BRITISH LOCOMOTIVE BUILDING INDUSTRY, 1850–1914: AN ENGINEER'S PARADISE?

By M.W. KIRBY

Even the most cursory examination of the visual legacy of the nineteenth century locomotive building industry, as revealed in innumerable picture books, specialist catalogues, manufacturers' brochures, contemporary trade and technical periodicals, and railway museums, cannot fail to convey an impression of overwhelming diversity.[1] The proliferation of engine types and classes after the success of the 'Rocket' in the Rainhill Trails was seemingly endless: wheel configurations, coupled or uncoupled, of ever increasing complexity, subtle and unsubtle changes in boiler design, in the size, number and positioning of cylinders, in valve arrangements and in the shape of fireboxes, the presence or absence of steam domes and engine cabs, locomotives with tenders or tanks – all of these variations on a simple and well-worn theme testify to a chronic lack of standardisation of design across the railway system as a whole and within its constituent parts at the level of the individual company. The economic disadvantages of this technical and engineering orgy appear obvious: short production runs precluded the achievement of scale economies by inhibiting greater capital intensity in the production process. With few exceptions the use of jigs and sophisticated machine tools could not be justified, with adverse consequences for labour productivity, and this was compounded by the limited prospects for subcontracting to specialist suppliers. Operating costs, moreover, were inflated as locomotive workshops were obliged to service and repair non-standard types.[2] The British locomotive of the nineteenth century, hand-built for the most part, and precision made, may have been of superlative engineering quality, but it played its part in reducing the profitability of railway companies and in raising the overall cost of transport services to the detriment of the economy as a whole. Insofar as the failure of the industry to achieve greater product standardisation has been studied at all, it has been ascribed principally to the market – fragmented and relatively small in size compared to that facing the large German and American builders – and, less prosaically, to the empire-building propensities of locomotive engineers dedicated to the pursuit of technical perfection for its own sake, to the neglect of considerations of cost and profitability.[3] This dual explanation is, indeed, attractive on at least two counts. In the first instance it is possible to point to the real efforts that were made to achieve greater

standardisation in the post-grouping era of the inter-war period when the newly-formed London, Midland and Scottish Company, for example, having inherited 10,316 locomotives embracing 393 different classes, instituted a rigorous policy of rationalisation after 1820 based upon the principle of 'individual costing'. Locomotive exchanges were also instituted after grouping, with the Great Western and London and North Eastern Companies taking the lead in attempting to assimilate the best design features from each system.[4] But even as late as 1948, when the nationalised British Railways embarked on a further programme of standardisation, there were still more than 400 classes to choose from at a time when the entire UK traffic could probably have been hauled by as few as 15 standardised designs.[5] These twentieth century attempts to bring order out of chaos are illustrative of the opportunities for greater standardisation which were foregone before 1914. Secondly, it is impossible to read the vast literature on individual locomotive engineers in the nineteenth century without gaining the impression that autocratic temperaments, in one or two cases bordering on certifiable megalomania, were the order of the day. The consensus view has been well expressed by Hamilton Ellis:

> the old-time locomotive superintendent . . . was an unique type of the Victorian engineer. It is probable that in no other profession of the mechanical arts did a man, who has risen to the top, enjoy such nearly absolute power. Of course, it was not limitless. Just as a temporal tyrant could be assassinated, so could a locomotive engineer be dismissed from supreme command of his department. But the proportion of sacked locomotive chiefs to liquidated emperors was extremely small.
>
> A strong man of sound ability – not necessarily a genius – could command his office until death or aged infirmity claimed him . . .[6]

Lacking the economic motive for product differentiation in order to gain oligopolistic control of the market, locomotive engineers, beyond the mere control of boards of directors, were able to establish 'private empires' in which idiosyncracies of design and the continuing proliferation of locomotive types could flourish.

There are undoubted elements of truth in both of these explanations. Technical virtuosos with autocratic personalities there certainly were, with Francis Webb, locomotive superintendent of the London and North Western Railway (LNWR) at Crewe, as the outstanding example of the type (although, paradoxically, Webb was a staunch advocate of standardisation),[7] and S.B. Saul's brief analysis of a disintegrated market structure as the main constraint on the achievement of technical economies in locomotive building and the mechanical engineering industries as a whole is generally convincing.[8] But as this article will seek to demonstrate, the reality of the situation was more complex. Boards of directors, for example, could be as guilty as

locomotive engineers in promoting non-standardisation, and it should be emphasised that Saul's analysis concentrates on the private builders of locomotives to the neglect of railway company workshops which formed the bulk of the industry catering for the UK domestic market. In order to provide a more comprehensive analysis of the reasons for product proliferation it is necessary to examine the structure and organisation of the locomotive building industry. Why did the railway companies develop their own workshop construction capacity, thus by-passing the private builders, and to what extent did this create an 'institutional' guarantee of proliferation? Secondly, the development of railway technology should be highlighted. The major innovations in locomotive engineering were introduced before 1840, but thereafter, 'minor' innovations, cumulatively significant, proceeded at a fairly even pace and they went hand in hand with inter-related technical developments in rolling stock design and in the engineering of the permanent way. Was product proliferation encouraged, therefore, by the fact that the railway locomotive, like its textile machinery counterpart, was in a continuous state of technical development and did not achieve its mature form until the decade before the First World War? Thirdly, it is necessary to consider the market for railway services together with the growth in traffic volume and the heightened competitive rivalries between railway companies after 1870, despite their growing public utility role. What were the implications for company workshops of ever-increasing speeds and haulage weights? Finally, the managerial organisation of the railway companies themselves should be examined. By the final quarter of the nineteenth century the locomotive superintendents of the leading railway companies were prestigious figures, some of them possessing considerable public reputations. But did they and their departments enjoy autonomy in locomotive and rolling stock design to the extent that commercial considerations were subordinated to the pursuit of technical perfection for its own sake with the exploitation of steam technology to its known limits as an ultimate objective? A full answer to these questions must await a detailed statistical analysis of railway company cost structures. Research is ongoing at this level so that the following analysis should be regarded as provisional, setting out a sequence of reasoned hypotheses supported, wherever possible, by general evidence.

I

The modern locomotive building industry was inaugurated in 1824 with the foundation of Robert Stephenson & Co. of Newcastle upon Tyne. By 1850 the industry contained approximately 20 specialist builders with Stephensons, Sharp Brothers (Manchester), E.B. Wilson (Leeds), Bury, Curtis and Kennedy (Liverpool), R. and W. Hawthorn (Newcastle Upon Tyne), William Fairbairn (Manchester) and Rothwell & Co. (Bolton) as the market leaders. The total output of the

industry was augmented by a miscellany of general engineering firms, such as Nasmyth's Bridgewater Foundry, the Neath Abbey Iron Company and Benjamin Hick of Bolton, which were tempted to enter the market for locomotives during periods of strongly rising demand when the specialist builders were approaching their margins of capacity.[10] Although broad categories of engine type for particular traffic requirements had begun to emerge as early as the 1830s, the disintegrated structure of the industry, reflecting low barriers to entry, ensured that at a very early stage total output contained a multitude of classes, many of them exhibiting marked variations in design and construction at a time when the steam locomotive was still an experimental machine.

From the 1840s onwards the structure of the industry was subject to profound change as a result of the decision of several of the major railway companies to develop their own building capacity in company workshops. The Grand Junction Company's Crewe works produced its first locomotive in 1843, the Swindon works of the Great Western Railway (GWR) in 1846, and the Miles Platting works of the Manchester and Leeds Company in the same year. By 1853 the practice was well established and by the end of the century these workshop establishments were extremely large. In 1905 more than 10,000 workers were employed at Swindon (GWR), 7,500 at Crewe (LNWR), 5,000 per establishment at Stratford (Great Eastern Railway) and Derby (Midland Railway), 3,000 at St. Rollox (Caledonian Railway), and more than 2,500 at Horwich (Lancashire and Yorkshire Railway), Doncaster (Great Northern Railway), and Darlington (North Eastern Railway). Even the smallest of the workshops, as at Cowlairs (North British Railway), had workforces whose size approached those employed by the larger private builders such as Neilson Reid (Glasgow 3,400), Beyer Peacock, (Manchester, 2,500), Dubs (Glasgow, 2,400) , and Kitson (Leeds, 2,000).[11] Increasingly, in the second half of the nineteenth century, the private builders were treated as a reserve source of supply and it is hardly surprising that firms such as Stephensons, Kitsons, Sharp Stewart, Beyer Peacock, and the Vulcan Foundry devoted greater attention to export markets, notably within the British Empire and South America.[12]

What factors account for the emergence of the 'own build' policy in the 1840s? At that time the railway mania was at its height and the private builders were stretched to the limit of their capacity. With substantial increases in route mileage in prospect, therefore, it was only to be expected that locomotive superintendents should press the case for workshop construction, especially when the private builders were reluctant to tender for batch production or to divert capacity to the manufacture of replacement components for pre-existing locomotive classes.[13] It should also be emphasised that whilst company workshops had originally been established for the mundane purpose of servicing locomotives, the nature of railway operations – the need to adhere to strict timetables and to offer a reliable service – soon resulted in the

organisation of comprehensive repair facilities focusing initially on boiler and frame replacement. In view of the technical simplicity of the early railway locomotive, therefore, and as company workshops began to engage in the more ambitious task of re-building engines, it was but a short step to 'in-house' construction. Indeed, this development was foreshadowed by the practice of technically ambitious locomotive superintendents, such as Daniel Gooch of the GWR and Matthew Kirtley of the Midland Railway, of submitting their own designs to the private builders.[14] There are several dismal stories concerning the poor quality of the early products of some of the private builders. In the late 1830s, for example, the GWR commenced operations with a locomotive stock notorious for its inadequate design and faulty construction, and the breakage of 55 crank axles on the first 55 locomotives of the Grand Junction Railway within a period of 18 months was not an apocryphal story.[15] The desire to monitor construction closely, therefore, was a powerful incentive for the introduction of an own-build policy, all the more so when design and construction together enhanced the prospects for producing a locomotive stock which was closely geared to the requirements of individual companies at a time when the quality of the permanent way was distinctly variable, and when standardisation of key items of equipment such as turntables was notable for its absence.

The experience of the Great Northern Railway provides yet another insight into the motives for in-house construction. The company's Doncaster works did not commence locomotive construction until 1867 when, under promptings from its locomotive superintendent, Patrick Stirling, the board authorised the building of replacement engines chargeable against revenue. The attraction of in-house construction in this instance lay in the fact that the board could obtain all of the advantages of improved haulage power without disturbing the capital account, whilst Stirling himself was given a completely free hand in the matter of replacement, even to the extent of substituting large (and expensive) passenger express engines for obsolescent goods classes.[16]

Thus, company workshop construction could be justified on several grounds. It is true that from time to time even the larger workshops had recourse to the private builders with some of them going as far as to buy in from foreign manufacturers, but as indicated already this was usually a result of capacity constraints in the wake of traffic expansion or the opening of new routes. The private builders, moreover, occasionally managed to dispose of surplus stock by advertising 'bargain offers' and a handful of them maintained a small number of specialised designs of a sufficiently high quality to appeal to the home railways.[17] The fact remains, however, that by 1870 a majority of Britain's leading railway companies had developed their own building capacity, with only the smallest, such as the Furness Railway, whose scale of operations remained below a break even or 'threshold size', remaining committed

exclusively to private builders.[18] It is not necessary to subscribe to Simmons' view that the own-build policy had the serious and adverse long term effect of inducing insularity in workshop practices to the detriment of innovation and the adoption of best-practice techniques to accept that workshop construction was a powerful force in underpinning extreme diversity of production.[19] There is a marked contrast in this respect between British and overseas practice where the private builders, with few exceptions, remained supreme. But it is difficult to conclude other than that the British tradition was the inevitable and predictable consequence of the country's pioneering role in railway development. Many of the locomotives produced by the private builders in the early constructional phase of railway operations were unreliable in service and costly to maintain. A heavily *decentralised* system, therefore, where even a minimum of workshop facilities was essential for efficient operations, acted as a powerful encouragement for the proliferation of locomotive classes.

II

The development of locomotive technology was steady and unspectacular after 1850. The innovation of the bogie or 'pony truck', the Giffard injector, new forms of valve gear, the Belpaire firebox, compounding, and superheating all contributed towards greater efficiency but they were essentially refinements in locomotive design which did not render pre-existing types immediately obsolete.[20] By far the most important development was the substitution of steel for wrought iron in the manufacture of wheel tires, axles and boilers. The use of steel for motion parts was first introduced by Krupps of Essen in 1851 and although steel components had been widely adopted in Germany and France by the end of the decade, it was not until 1880 that the new material had won general acceptance among British locomotive builders. By that year steel was also being used in boiler construction, notably by the Crewe works of the LNWR[21] but general diffusion for this purpose did not take place until the 1890s. This innovative lag can be explained in part by the high quality of Yorkshire iron which also retained a cost advantage over steel on the grounds of its initial lower cost, and the fact that British steel producers were for long unable to manufacture a product of consistent quality. Thus, axles tended to break and boilers were subject to pitting of the metal after relatively short periods of service. Once these problems had been resolved by improved methods of manufacture the new steel technology enabled more powerful locomotives to be built for a given weight, operating at higher boiler pressures. It also contributed towards greater safety, and ultimately to the lowering of operating costs. But in the context of locomotive engineering as a whole the introduction of steel was not a major innovation on a par, say, with Stephenson's multi-tubular boiler of 1829. It was clearly important, but as with other innovations of the

post-1850 period it was not a vital factor in ensuring the success of railway operations.

One of the consistent themes of Rosenberg's work on technological diffusion is the stress which he places on incremental, or cumulative innovation as the driving force of mechanical progress.[22] There are innumerable examples of the process in a wide range of industries, from iron and steel and shipbuilding to motor vehicles and computer engineering, and locomotive building is clearly no exception. But in the present context the essential point to note is that the innovative process in locomotive building contributed towards product proliferation because of the distinctive nature of the locomotive as a capital good. It was long-lived and extraordinarily durable, and the facility with which it could be re-built to incorporate design advances and new construction materials was remarkable. As one eminent authority on the subject pointed out, 'Much can be done with a knife, if it be provided with three or four new blades and a similar number of new handles'.[23] As a result of their durability, therefore, very few locomotives, other than manifest design failures, were scrapped after less than twenty years of service, and many survived as working units for more than half a century.

An important consequence of these technical characteristics of steam locomotives was that neither engineers nor accountants had any firm financial basis from which to work in designing a replacement policy which could be applied to all locomotive types over all periods. Any accounting life for a new locomotive was bound to be a guess even if it was based on past experience of similar types, and more critically, the accounting life provided no guide to the question as to when it was profitable to replace any particular locomotive and therefore no guide to the 'correct' average lives that were profitable. As experience on the GWR in the nineteenth century reveals, there was no uniformity about the ages of locomotives at the time of scrapping. Indeed, there was immense variation, notably for the express passenger types where the average life for particular classes ranged between 17 and 40 years. The study of repairs costs for the same company, moreover, shows that after an initial rise in the first ten to 15 years there was no consistent tendency for these costs to rise. There was on average over a long period of time and over a large number of locomotives a slow growth of the order of one per cent per annum, but the variations in cost between individual locomotives were immense and of no regular pattern.[24] Thus, to the extent that the GWR experience was replicated elsewhere, the longevity of the steam locomotive in a context of confused notions of an optimal 'accounting life' encouraged proliferation. In view of the fact that many locomotives could be put to traffic uses other than those for which they were originally designed, the technical feasibility of up-dating an entire class by regular rebuilds could greatly prolong its useful life thereby delaying the decision to scrap. Over time, the inevitable consequence of rebuilding the best which remained in a particular class

was to encourage ever greater diversity in the locomotive stock, a policy which may have been attractive to a railway company's running department anxious to exploit traffic potential to the full, but disadvantageous to the workshop in that it curtailed the opportunities for standardisation.[25]

A further contributory factor to proliferation was the interrelatedness or 'complementarity' of technical progress on the railways. The introduction of the steel rail after 1880, for example, released locomotive engineers from a critical technical constraint on the design of heavier and more powerful locomotives. Steel rails were far more durable, lasting more than ten times as long as wrought iron rails, and they could bear far greater loads.[26] Their effect, therefore, was to encourage the introduction of new classes of four and six coupled engines with enhanced power–weight ratios and capable of hauling heavier loads at higher speeds. Speed was, of course, an important consideration in the competitive struggle to capture more passenger traffic (see below), but more powerful locomotives could only be introduced with facility if there were simultaneous improvements in signalling and braking systems in order to maintain safety standards. This was achieved after 1888 by the introduction of continuous brakes for passenger trains and the general adoption of the block system of signalling.[27] Complementarity could also have the perverse effect of reinvigorating obsolete designs and there can be no better illustration of this than in the introduction of steam sanding apparatus in the mid-1880s. Single drive locomotives (that is, with uncoupled driving wheels) had always been popular because of their smooth running qualities, fuel efficiency, and ease of maintenance. The simplicity of the design was also an important factor at a time when precision methods of alignment for coupling rods and axleboxes had yet to be devised. But as train speeds and weights increased in the final quarter of the nineteenth century the single driver's limited tractive effort might well have ensured its early disappearance. Instead, the type enjoyed a renaissance in the early 1880s when six railway companies resumed construction, taking advantage of the new steel rails which could bear up to 20 tons on the driving wheels, and the steam sanding apparatus itself which increased the single driver's tractive ability by carrying the sand directly to the point of contact between wheel and rail.[28]

Within this general pattern of extreme diversity in design and production there are two outstanding exceptions – the Crewe works of the LNWR and the Swindon works of the GWR. In the case of Crewe, under John Ramsbottom as locomotive superintendent and his successor, Francis Webb, determined efforts to introduce standardisation both within and between locomotive classes were made from the early 1860s onwards. After inheriting a locomotive stock that was unusually diverse, even by the norms of the nineteenth century, Ramsbottom made striking progress towards standardisation, re-equipping the Crewe works with advanced machine tools and introduc-

ing templates and gauges for the production of common parts. Unique among British locomotive builders the Crewe works began to manufacture its own steel in the 1880s, whilst the organisation of the plant was transformed to permit the repair and construction of specific classes of locomotive in designated workshops.[29] In these respects Crewe, the second largest locomotive establishment in the UK, was far in advance of practice elsewhere. The traditions established by Ramsbottom were maintained by Webb so that by the late 1880s 'the degree of standardisation . . . was higher than in any subsequent time to the end of steam'.[30] In explaining the Crewe achievement in containing proliferation two factors stand out. In the first instance it was a matter of rigid policy laid down by the company chairman, Sir Richard Moon, that economy in operations throughout the LNWR network was dependent in part upon moderate train speeds. Thus, in his view, an average performance of 40 mph was more than adequate for main line expresses at a time when other companies were regularly achieving average speeds of between 55–60m.p.h. In his obsession with economy Moon even went as far as to repeatedly instruct G.R. Neele, the superintendent of the line, to obtain sanction from the Post Office for a reduction in the agreed contract speed for the Irish Mails although the timing, according to Neele, was 'comparatively easy'. A policy of restricted speeds, therefore, even for express passenger services, meant that 'there was no point in Ramsbottom building larger and more powerful engines'.[31]

It is also noteworthy that Ramsbottom's policy of standardisation was pressed furthest in the production of goods engines. In the fourteen years after 1857, 1,035 locomotives were built at Crewe embracing no more than six classes and of this impressive total nearly 800 were of the celebrated 0-6-0 'DX' class of goods engine. In all, 843 DXs were built, 86 of them for sale to the Lancashire and Yorkshire Railway in the period 1871–74.[32] Indeed, Crewe's productiveness so alarmed the private builders that 13 of them (with the recently formed Yorkshire Engine Company as the leading instigator) formed the Locomotive Manufacturers' Association in 1875 as a pressure group aimed at curtailing Crewe's incursions into the open market. Their efforts bore fruit in March 1876 when an injunction was served on the company declaring that the manufacture of 'locomotive engines or other rolling stock for sale or hire' was *ultra vires*.[33] The DX, therefore, was a highly successful locomotive design and was perceived to be so. But it was produced in such large numbers not only because it represented a major advance in adhesion weight and tractive effort over earlier classes, but also because the less strict scheduling requirements for goods trains meant that the DX had a substantial margin of haulage capacity to cope with heavier goods traffic. As freight loadings increased, moreover, there was also the possibility of improving its performance in the rebuilding process, while the greater acceptability of 'double-heading' for goods trains as a whole acted as a further

restraint on the proliferation of non-passenger locomotive designs at Crewe.

In many ways the most outstanding practitioner of standardisation was George Jackson Churchward, chief mechanical engineer of the GWR between 1902 and 1921. Standardisation in design had been a notable feature of the Swindon works from the outset of locomotive construction and despite the uncertainties induced by the unfavourable outcome of the gauge controversy much was achieved from 1850 onwards in securing interchangeability of standard parts between different locomotive classes. Nevertheless, as one authority pointed out, 'Such standardisation . . . rather waited on events' as new types were evolved which repeated some of the design characteristics of their predecessors. Thus, although there was a recognisable GWR engineering tradition in the latter half of the nineteenth century, the Swindon works were merely replicating Crewe practice.[34] Churchward's contribution to locomotive engineering, however, marked a decisive break with past experience for in the period from 1903 to 1911 he embarked upon a design exercise akin to the most modern practice in the civil aircraft industry. Each of the nine classes of locomotive produced in those years – all of them subject to a learning curve which helped defray the cost of development – were inspired by the 'family' concept well known to the modern aircraft designer. Churchward was the first locomotive engineer to engage in long range planning covering virtually all aspects of traffic operation, from express passenger and suburban services to the carriage of mixed goods and heavy minerals. Taking the nine classes as a whole

> four standard boilers were needed at the outset to suit the locomotive projected in accordance with overall dimensions, permissible weight and steam generating capacity. There were three driving wheel and two carrying wheel diameters, two cyclinder blocks and valve gear, while connecting, coupling and valve rods were alike except as regards length, which was varied to suit each particular type.[35]

So accomplished was Churchward in his engineering abilities that in the ten years after 1911 only two new engine classes were required on the GWR network. His specially selected design team was disbanded before the First World War but that proved to be no great handicap to a locomotive building establishment which was at least ten years ahead of its counterparts elsewhere in terms of construction techniques and engineering practice in general. It is no coincidence, therefore, that the GWR encountered the least difficulty of any of the merged companies in managing its locomotive stock after grouping in 1923.[36]

Yet in citing the cases of Crewe and Swindon as the exemplars of best practice techniques, it cannot be too strongly emphasised that they were the exceptions which proved the general rule. Proliferation at Crewe was contained by moderate speeds (at least until the 'race to the

north' decade after 1886), and standardisation was truly impressive in only one class of locomotive. At Swindon, moreover, Churchward possessed two inestimable advantages in his drive to produce standard types. In the first instance he was able to begin the process of experiment in design in the aftermath of the retirement of an older generation of conservative managers, coinciding with the end of the broad gauge. The latter had exerted a powerful brake on technical progress, and in any event its final demise in 1892 necessitated the reconstruction of a significant part of the GWR's locomotive stock. Until the early years of the nationalised railways no other locomotive engineer was given the opportunity of designing on such a relatively clean sheet.[37] Secondly, the Churchward era coincided with the technological maturity of the locomotive in a context of relatively settled traffic requirements. By 1900 standardisation was a meaningful concept in the engineering sense due to the innovation of improved machine tools, new methods of workshop organisation, and developments in metallurgy. Handicraft methods of production were by then as obsolete as the use of wrought iron as a construction material. Churchward himself, moreover, was unusually alert to the opportunities for enhanced power provided by recent European and American design advances and in these circumstances it was possible to embark upon an ambitious policy of standardisation in the comfortable knowledge that the use of best-practice design and construction techniques was reducing the risk of early obsolescence.[38] This is not to deny or downgrade Churchward's brilliant achievement: merely to draw attention to the uniquely favourable environment in which he practised his talents.

III

It was a notable ambiguity inherent in British transport development that increasingly in the final quarter of the nineteenth century the railway companies were regarded as organisations akin to modern day public utilities. As David Eversley has pointed out in the context of the GWR, 'By 1885 railways were an institution and a public service. Trains might be more or less full – but they would run, since the public expected it'.[39] Fortunately for the railway companies the period after 1870 witnessed a remarkable upsurge in traffic. In 1870 the total number of passengers carried was 336 million: by 1900 the figure had risen to more than a billion. In freight traffic the weight of goods and minerals conveyed rose from 235 million tons in 1880 to well over 400 million tons by 1900. The reasons for this expansion are well known. The major underlying factor was undoubtedly rising real income levels due, in part, to cheaper imported foodstuffs. Wheat grains, refrigerated meat, and dairy produce were transported from the ports to urban markets by rail and this new category of traffic was augmented on the non-freight side by a rise in the number of passenger journeys undertaken for pleasure. Weekend excursions became increasingly

common in the 1870s following a reduction in Saturday working, and also as a by-product of the decline in religious worship. In the following decade the volume of summer traffic began to rise in response to the growing popularity of coastal resorts.[40] With the exception of the growth in heavy freight traffic – dominated by the bulk transport of coal for export – none of these extra services contributed directly to the proliferation of locomotive types. This did not apply, however, to the development of commuter traffic which followed in the wake of suburban development. The problems confronting locomotive superintendents in catering for this new source of demand was that existing locomotive types were unsuited to a specialised form of railway service involving frequent starts and stops, very tight scheduling, and marked peaks and troughs of daily activity. The solution was eventually found in electrification, but as an interim measure in the period to 1914 the passenger tank locomotive made its appearance, spawning its own design variations according to the nature of the service to be operated, whether metropolitan, main-line, or local branch line commuting.[41]

A growing public utility role for railway companies did not mean the end of competition. Until grouping in 1923 the rail traveller was confronted with a choice of routes from London to the South West, Birmingham and Manchester, and north of the border to Edinburgh and Aberdeen, and with the curtailment of price competition after 1870 individual companies were obliged to safeguard their share of the traffic by engaging in competition in services.[42] Thus, the first Pullman sleeping car appeared on the Midland Railway in 1874, the first dining car on the Great Northern Railway in 1878, and this was followed in the 1880s by the widespread adoption of the modern bogie carriage paving the way for the corridor train which made its debut on the Great Eastern and GWR networks in 1891–92. As Simmons has pointed out, by the 1890s service could be selected for 'speed, convenience and amenity' with even the third-class passenger enjoying the benefits of well upholstered seating in well-lit, heated carriages.[43] For the railway companies these developments had two major consequences. First, more lavishly appointed trains led to a decline in the ratio of the pay-load to the haulage weight with the result that working costs began to accelerate markedly in the 1890s. To add extra carriages to a train to increase the pay-load was not the answer to this problem because the new rolling stock of the late nineteenth century was considerably heavier than pre-existing types. Between 1875 and 1885 average main-line carriage weights increased from between 15–20 tons to 25–30 tons with the result that passenger expresses composed of ten or more of the latter could not be hauled at scheduled speeds by the existing locomotive stock without fast running downhill to the detriment of safety.[44] Initially, the problem could be tackled either by double-heading from the London terminus when train weights were heaviest, or by having only a small proportion of modern rolling stock attached to each train. Both solutions were unsatisfactory – the first on grounds of cost, and

the second because it greatly complicated the business of the running department with carriages of different ages and classes scattered across the country. It was inevitable, therefore, that the later 1890s should witness a substantial proliferation of locomotive types in the express passenger classifications as locomotive engineers responded to the challenge of ever greater haulage weights.[45] A striking illustration of the effects of intense competition and the need for enhanced locomotive power in the pre-Churchward era is provided by the North Eastern Railway which, in the decade after 1892, introduced five new classes of main-line express locomotives in rapid succession in order to maintain its share of the Anglo-Scottish traffic.[46] Short production runs of more sophisticated locomotives can hardly have aided operating efficiency, but then the railway companies were caught on the horns of a competitive dilemma stemming directly from an increasingly stringent regime of statutory price regulation.

IV

Institutional structures at the industry-wide level, the development of technology, and the market for railway services must provide a substantial part of the explanation for proliferation. There remains to be considered the residual factor of the supposedly 'independent' role of the locomotive superintendent in underwriting non-standardisation as a result of self indulgence, incompetence, or both. Before examining this aspect of the locomotive building process a number of preliminary observations should be made. The leading railway companies were Britain's largest corporate enterprises in the nineteenth century and if the direct transfer of managerial expertise to other sectors of the economy was never very great it is possible to agree with Gourvish that the railway companies played an important pioneering role in establishing the status of the professional, salaried manager in Britain.[47] It is equally legitimate to argue, however, that whilst the companies developed quite sophisticated departmental structures the quality of management was weakened by the failure to establish effective accounting procedures. Until the passing of the Railway Companies (Accounts and Returns) Act of 1911, for example, it was possible to disguise net investment from stockholders by raiding depreciation or expense funds,[48] and as the Ministry of Reconstruction commented in 1918, there was ample evidence, based on wartime experience, that the companies were failing to make adequate provision in their costs for rates and taxes, ground rent and depreciation.[49] In mitigation it can be pointed out that until the First World War the railway system 'was . . . expanding continually so that the companies' efforts were devoted to completing their lines, making them run, getting the traffic, holding on to it. Estimates came first, the outlay second, counting the costs third.'[50] In this situation it is just as valid to argue that any tendency towards the creation of 'private empires' was the product of the imperfect integra-

tion of locomotive engineering workshops into the financial structure of railway companies as to claim that it was the result of the independent ambitions of locomotive superintendents. It should also be emphasised that boards of directors could themselves be the active agents of proliferation. This could happen in three main ways. First, if a railway company was struggling financially a board might be forced to impose strict economies on all departments. A good example of the effects of financial parsimony on the locomotive department in particular is provided by the Great Northern Railway in the 1850s and 1860s. The company at that time relied exclusively upon the private builders and the board forced upon the locomotive superintendent, Archibald Sturrock, a 'hand to mouth' buying policy which had as its main rationale the acquisition of bargain offers. Inevitably, Sturrock bequeathed a multitude of disparate classes to his successor, Patrick Stirling.[51] Second, although railway companies were in the vanguard of modern corporate enterprise, a number of them exhibited a marked reluctance to rationalise their operating procedures in the wake of acquisitions by amalgamation. Thus the GWR for long retained separate locomotives building establishments at Swindon and Wolverhampton, the LNWR at Crewe and Wolverton, and the North Eastern Railway at Gateshead and Darlington. Locomotive Superintendents might advocate rationalisation but until a board provided the finance for the concentration of building activity at one site or another, coordination in the management of the locomotive stock would be impeded. Third, boards of directors might act irrationally by encouraging excessive innovation out of a concern for physical efficiency rather than profit maximisation. The decade of the 'race to the north' after 1886 bears eloquent testimony to the extent to which supposedly rational men could succumb to a form of hysteria prompted by the desire to shave a few minutes off the scheduled time for the run between London and Aberdeen. Of course, like the Atlantic 'Blue Riband' victory brought favourable publicity, prestige and perhaps, extra passengers, but the suspicion remains that some locomotive engineers received active encouragement to produce successively more powerful engines for essentially frivolous reasons which were incompatible with the responsible direction of public companies.[52]

In the light of all these factors what remains of the stereotype image of the all-powerful locomotive superintendent? Taking the cue from Hamilton Ellis it is certainly true that the number of enforced resignations for technical incompetence was extremely small in the nineteenth century, and the great majority of locomotive superintendents did remain at their posts until old age, death, or infirmity claimed them.[53] The evidence currently available also suggests that when a locomotive superintendent was challenged by his board on technical matters it was the latter which invariably gave way. Not that the challenges were very frequent. Sturrock's experience at the Doncaster works of the Great Northern company was notable for its rarity and there are numerous

examples of locomotive superintendents who appeared to enjoy *carte blanche* in the running of their departments – Joseph Hamilton Beattie (London and South Western Railway), John Chester Craven (London, Brighton and South Coast Railway), Edward Bury (Great Northern Railway), Edward Fletcher and the Worsdell Brothers (North Eastern Railway) Francis Webb (LNWR), and Daniel Gooch (GWR) – all of these engineers conform to the stereotype image, firmly in control of their departments and, apparently, a law unto themselves in the matter of locomotive design.[54] The fact remains that the locomotive superintendent was 'the technical master of the board'. As Eversley has emphasised, directors were not proprietors, and full-time board members capable of monitoring the activities of specialist departments were in a minority.[55] The typical general manager of a railway company, moreover, was likely to have been recruited from the traffic department, [56] and although he may have been knowledgeable about finance he 'knew little or nothing about technology and was the servant of the board in law and of the engineer in fact'.[57] The statutory requirements for safety and efficiency of operations alone weighted the scales in favour of a competent locomotive superintendent when in dispute with directors. Locomotive superintendents in general, therefore,

> were men who held their posts through the strength of their character. In the days of Stephenson and Brunel technical knowledge was still something of a legendary quality. By the end of the nineteenth century there were recognised professional institutions for civil and mechanical engineers. These bodies through their membership, conferred status on their members. Even without patrician birth or landed property the new professional class (of salaried engineers) could aspire to the magistracy, a seat in Parliament, and even a baronetey.[58]

In this light the ascendancy of Francis Webb over the LNWR board in the face of the demonstrable technical failure of an entire sequence of compound locomotives over a period of 20 years is readily understandable. At the time of his enforced retirement (mainly as a result of ill-health) in 1903 Webb was receiving a salary of £7,000 per annum – 40 per cent more than the company's chief executive and general manager. To paraphrase Eversley, it was a city financier's salary for an engineer's job and it ensured that Webb enjoyed equal status with his directors. Almost to the end of his career he was unchallengeable, despite the mediocrity of his designs, and in any event his high salary could be justified on the grounds of an outstanding record in production engineering and the successful management of a workshop establishment which doubled in size during his tenure of office.[59]

Perhaps the only fair comment that can be offered on this point is that locomotive superintendents in general appear to have enjoyed ample discretion in their professional capacity, but whether they abused their positions in order to engage in design fetishes is uncertain. A minority

may well have acted in this way, but as the example of Webb illustrates an unduly myopic view of the functions of such officials should be avoided. Technical competence in design matters was clearly desirable, but it was not a *sine qua non* for professional survival. Churchward's ascendancy at Swindon did not rest solely on his talents in engineering design: the ability to manage the locomotive establishment in all of its multifarious activities was the critical factor.

V

In conclusion it seems clear that historians should avoid judging a nineteenth-century industry by standards and procedures which were only attainable in the twentieth century. Standardisation as practised by Churchward could only begin to take place after the locomotive had attained technological maturity – and that was dependent upon complementary innovations elsewhere, in the construction of the permanent way, and in signalling and braking techniques. It was also dependent upon some degree of traffic stability following on the sustained expansion of the late Victorian period. Above all, it had to await organisational reform: as long as the Victorian state remained hostile to large scale amalgamations between the railway companies the potential for exploiting technical economies and coordinating the locomotive stock was severely limited.[60] The nineteenth-century railway system, in affording ample opportunities for self indulgence in design matters, was certainly a paradise for locomotive engineers but there are cogent reasons for saying that it was very far from being one of their own making.

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NOTES

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3. See S.B. Saul, 'The Market and the Development of the Mechanical Engineering Industries in Britain, 1860–1914', *Economic History Review*, Vol.XX, No.1 (1967), pp.111–30, reprinted in S.B. Saul (ed.), *Technological Change: The United States and Britain in the Nineteenth Century* (London, 1970), pp.141–70; O.S. Nock, *Steam Locomotive: A Retrospect of the Work of Eight Great Locomotive Engineers* (London, 1955).
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5. J.N. Westwood, *Locomotive Designers in the Age of Steam* (London, 1977), p.1.
6. C. Hamilton Ellis, *Twenty Locomotive Men* (London, 1958), p.1. See also John Marshall, *A Biographical Dictionary of Railway Engineers* (Newton Abbot, 1978), R. Ransome-Wallis (ed.), *The Concise Encyclopaedia of World Railway Locomotives* (London, 1959), pp.494–503, Nock, *Steam Locomotive*; Westwood, op. cit.
7. For details of Webb's career see Brian Reed, *Crewe Locomotive Works and Its Men* (Newton Abbot, 1982) and O.S. Nock, *The Premier Line: The Story of London and North Western Locomotives* (London, 1952).
8. Saul, op. cit.
9. For the early history of this firm see Michael R. Bailey, 'Robert Stephenson and Co., 1823–1829', *Transactions of the Newcomen Society*, Vol. 50, (1980), pp.1–23.
10. Details of the private builders can be found in James W. Lowe, *British Steam Locomotive Builders* (Cambridge, 1975), and Locomotive Manufacturers' Association of Great Britain, *LMA Handbook* (London, 1949).
11. Information from Lowe op. cit., pp.8–11, Political and Economic Planning, op. cit., and Saul, op. cit. In 1903 Neilson Reid, Dubs and Sharp Stewart amalgamated to form the North British Locomotive Company, the largest private builder of locomotives in the UK. In 1907 8,000 workers were employed. See Christine Shaw, 'The Large Manufacturing Employers of 1907', *Business History*, Vol.XXV, No.1 (1983), p.52. Shaw cites the following figures for company workshops at varying dates: Derby (Midland Railway, 1901), 8,500; Stratford (Great Eastern Railway, 1914), 7,000; Gorton (Great Central Railway, 1903), 4,070; Horwich (Lancashire and Yorkshire Railway, 1907), 4,000; Doncaster (Great Northern Railway, 1914), 4,000.
12. Locomotive and Allied Manufacturers' Association of Great Britain, *British Locomotives* (London, 1961).
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16. F.A.S. Brown, *Great Northern Locomotive Engineers, Vol.1, 1846–1881* (London, 1966), pp.138–9.
17. Jackson, op. cit., pp.150, 208, 226–7; Hamilton Ellis, *Twenty Locomotive Men*, pp.16–17, Ahrons, op. cit., pp.122–3, 307, 337, 357; Brown, op. cit., p.169.
18. Jack Simmons, *The Railway in England and Wales: volume 1: The System and Its Working* (Leicester, 1978), p.176.
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24. Humphrey Cole, 'Great Western Locomotive Replacement', unpublished manuscript, Oxford Institute of Statistics (1957). I am grateful to Mr Cole for granting me permission to read his work.
25. The extent and popularity of rebuilding can be traced in Ahrons, op. cit.
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27. H.J. Dyos and D.H. Aldcroft, *British Transport: an Economic Survey from the Seventeenth Century to the Twentieth* (Harmondsworth, 1974), p.159.
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32. Ibid.
33. W.H. Chaloner, *The Social and Economic Development of Crewe 1790–1923* (Manchester, 1950), p.73.
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36. Nock, *Steam Locomotive*, pp.34–5.
37. Cole, op. cit.
38. The principal foreign innovations incorporated in Churchward's designs were the Belpaire firebox (Belgium), the Schmidt superheater (Germany), and the tapered boiler (USA). Experiments with compounding utilising locomotives imported from France were also undertaken. See H.A.V. Bulleid, *Master Builders of Steam* (London, 1963); Gibson, op. cit., pp.68–113; Hamilton Ellis, *Twenty Locomotive Men*, pp.205–12; Westwood, op. cit., pp.125–32.
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41. See Ahrons, op. cit., *passim*.
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43. Simmons, op. cit., p.199. For the history of the Pullman company see G. Behrend, *Pullman in Europe* (London, 1962).
44. C. Hamilton Ellis, *Railway Carriages of the British Isles from 1830–1914* (London, 1965); Ahrons, op. cit., p.132; Eversley, op. cit., p.182; Kidner, op. cit., pp.81–104.
45. For details see Ahrons, op. cit., pp.289–305.
46. R.J. Irving, *The North Eastern Railway Company, 1870–1914: An Economic History* (Leicester, 1976) p.94.
47. T.R. Gourvish, *Mark Huish and the London and North Western Railway: A Study*

in Management (Leicester, 1972); 'The Railways and the Development of Managerial Enterprise in Britain', in Kesaji Kobayashi and Hidemasa Morikawa (eds.), *Development of Managerial Enterprise* (Tokyo, 1986), pp.185–204.

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49. Ministry of Reconstruction, *Report on the Standardisation of Railway Equipment* Cd. 9193 (London: HMSO, 1918).
50. Dyos and Aldcroft, op. cit., p.198.
51. Brown, op. cit., pp.48–124 *passim*.
52. The case of the NER board in the 1890s has already been cited (see above p.299). There is some evidence to suggest that the decision of the GWR board to authorise the building of the first 'Pacific' locomotive in Britain in 1908 was motivated in part at least by considerations of prestige. See Gibson, op. cit., p.113. On the 'race to the north' see O.S. Nock, *The Railway Race to the North*, (London, 1959).
53. Hamilton Ellis, *Twenty Locomotive Men, passim.*
54. Ibid.; Nock, *Steam Locomotive, passim*; Brown, op. cit., p.33.
55. Eversley, op. cit., p.118.
56. T.R. Gourvish, 'A British Business Elite: The Chief Executive Managers of the Railway Industry, 1850–1922', *Business History Review*, Vol.XLVII, No.3, (1973), pp.289–316.
57. Eversley, op. cit., p.188.
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60. For an overall view of the disadvantages of fragmented company development see James Foreman-Peck, 'Natural Monopoly and Railway Policy in the Nineteenth Century', *Oxford Economic Papers*, Vol.XXXIX, No.4 (1987), pp.699–718.

[30]

HERBERT HOOVER, PROFESSOR LEVITT, SIMPLIFICATION AND THE MARKETING CONCEPT

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ABSTRACT

Simplification is the process of reducing the number of product styles, colors and varieties. This paper describes simplification campaigns during World War I and the 1920s and considers their implications for contemporary marketing thought and policy.

INTRODUCTION

The early volumes of The Harvard Business Review included many short corporate case histories. Volume 5, Number 4 (July 1927) praised Page and Shaw, Inc., an American confectioner, for using the same marketing techniques in Britain as in the United States. In spite of a prevailing view that special adaptations were required by the British market, the company's fledgling London subsidiary had profitably produced high-priced boxed chocolates which it distributed primarily through its own retail shops. It thus replicated its parent's practices and demonstrated the universality of good marketing techniques.

Fifty-six years later, Professor Theodore Levitt (1983) has published a forceful, stimulating HBR article, in which he exhorts international marketers to shun geographic segmentation. Professor Levitt holds that a worldwide similarity of desires not only permits, but often mandates, seeking the economies of making and selling a uniform product everywhere. Parenthetically, he does make ritual obeisance to other types of segmentation. But the emphasis that he puts here on the pervasiveness and widespread emulation of tastes, and the arguments that he advances here and elsewhere (e.g., Levitt 1976) for the economies of mass production indicate that his heart is really in product simplification rather than diversification.

This similarity of viewpoints over a span of more than a half century suggests several things.

(1) It raises a question of whether even our very best managerial marketing thought, as distinguished from purely technical improvements, has really moved forward very much during the last fifty years or so. Alternatively, we can ask how much of our nontechnical thought and advice has gone through waves and cycles, eventually coming full circle. Such a pattern is characteristic of many academic fields, from teacher training to literary criticism, and may well apply to marketing.

(2) The view that both articles share may be considered as representative of what George Ritzer (1983) calls "The McDonaldization of America" [and much of the rest of the world]. Drawing upon the sociology of Max Weber, he depicts a process of rationalization that seeks efficiency, predictability, calculability, substitution of nonhuman for human technology, and control over uncertainty. Ritzer strongly implies that this process is inimical to individualization and diversity. The metaphor is apt. The original extremely limited menus of the fast food chains certainly illustrated a high level of routinization, predictability, and efficiency along with little toleration for individual preferences. McDonald's even devised a method of discouraging customers who wanted to eliminate any of the standard condiments from their hamburgers. Now competition has induced some change in menu policy but the principle remains the same.

(3) The relation of product diversification/segmentation to product standardization/simplification may be viewed (Rexnick, Turney & Mason 1979a, 1979b; Levitt 1983) as a tradeoff between production and marketing economies on the one hand and individual adaptation on the other hand. This tradeoff is not quite the choice between the propagandizing and merchandising fucntions, discussed by E.D. McGarry (1950) or the similar choice between product differentiation and market segmentation enunciated by Wendell Smith (1956). Much of the current and older discussion holds, rightly or wrongly, that whatever sales deterents arise from lack of fine tuning will be offset, not by sales promotion, but by price appeal.

(4) The diversification/simplification issue sheds some light on the validity and the antiquity of "the marketing concept." That concept seems to call for a high degree of adaptation to the vagaries of customer (consumer) desires. Resnick, Turney & Mason (1979b) suggest it is a cause of oversegmentation; Levitt (1983) speaks of "this perverse practice of the marketing concept." The existence of great product diversification before 1950 would indicate that at least that element of the marketing concept operated much earlier than most marketing scholars now believe it did.

The great simplification/standardization movement of the 1920s, spearheaded by Secretary of Commerce Herbert Hoover, is relevant to many of the above issues.

THE SIMPLIFICATION MOVEMENT

Terminology

The terminology of the simplification/standardization/classification-grading/specification movement was somewhat vague and confusing--definitely in need of standardization. In the dictionary sense, standards can be thought of as goals and criteria as well as approaches to uniformity. Historians of commercial standardization cite as examples the establishment of uniform weights and measures, the development of time-measuring systems, the institution of generally-accepted and controlled coinage, and finally, early instances of mass production, such as Eli Whitney's 1801 rifles with interchangeable parts (e.g., Weidlein and V. Reck 1956). Coles (1940) offers a good definition for our purposes: "A standard is a physical, written, graphic, or other representation of a product or procedure, established by authority, custom or general consent with which other products or procedures of a like nature are compared for identification or measurement or to which they are made to conform."

Simplification is probably best defined as "reducing the number of types and varieties made" (Anglo-American Council 1950). Various writers draw other distinctions between standardization and simplification: that the latter involves concentrating on the best selling items while the former selects those items that are best in some objective physical sense (Soule 1934); that simplification is only a process of elimination while standardization (or something else) contemplates creating new, better, more widely-applicable products; and that standardization rests upon physical or "scientific" research while simplification only uses economic analysis (cited by Coles 1949, pp. 114-115). We need not be concerned with these latter distinctions which appear only sporadically in the literature.

World War I

Writing in 1929, the National Industrial Conference Board (pp. 8-11) described the years before World War I in language somewhat reminiscent of modern discussions of pre-World War II years. The Board described markets as virtually unlimited until about 1900, so that rapid production rather than cheap production was the important thing. A contemporary textbook writer might refer to that situation as "the production era." The argument is clear that after 1900, price became an important aspect of market appeal. The Board's description of the next stage, however, sounds less familiar. The expansion of machine technology created a world of mass markets, mass production and mass distribution. That world called for the elimination of competitive wastes and concentration on the "one best way" (a phrase popular in the 1920s). Individual producers sought this by standardizing parts and components for mass production and industries sought the same ends through mergers, trusts and cartels. (The Board may not have been totally unbiased.) But the process was "poorly coordinated" and "slowed down to a snail's pace."

Defense and war needs from 1917 to 1919 were the catalyst for industry-wide simplification. One month before U.S. entry into the war, the government established a Commercial Economy Board which later became the Conservation Division of the War Industries Board (Library of Congress 1974). Its chairman was Arch W. Shaw, a pioneer marketing writer, a successful manufacturer of office furniture, and founder of System magazine (later Business Week). Shaw claimed to have developed one of the first industry-wide simplification programs, that affecting wool cloth, to obtain maximum output. For years after the war he continued to publish pro-simplification articles in System. The Conservation Division ultimately imposed size, variety and color limitations and other controls on over 250 industries (Library of Congress 1974).

The reductions the Division mandated demonstrate the diversity of pre-war production. Some illustrations: typewriter ribbons reduced from 150 to 5 colors; plows, from 326 styles and sizes to 76; automobile tires, 287 types to 9; pocketknives, 6000 to 100 varieties; and steel pens, from 132 styles to 30 (Cochrane 1966, pp. 177-78). Certainly almost every shading of taste and almost every market segment must have been matched by the 150 typewriter ribbon colors and the 6000 different pocketknives.

Postwar Period

A short business revival during 1919 was followed by a severe depression until the latter part of 1921. The simplification thrust evaporated as industry returned to product diversification. The factors responsible for this reversion were similar to those that overtook the next simplification drive and will be discussed later in this paper.

Herbert Hoover's Standardization/
Simplification Crusade

Upon becoming President of the American Engineering Council of the Federated American Engineering Societies in 1920, Herbert Hoover proposed a major study of productivity losses in American industry. The Council's influential report, Waste in Industry, proposed, along with many other things, restoration of the standardization/simplification program. Hoover (1951) recounted with satisfaction having subsequently "put this plan into voluntary action on a nation-wide scale through the Department of Commerce."

In 1921 Hoover, who had achieved prominence as Food Administrator during the war, accepted the post of Secretary of Commerce. Contrary to some recent impressions, the Great Engineer was a vigorous reformer who built Commerce to the strongest point in its history even while advocating limitations on governmental power. He resolved this paradox in two ways. He believed that Commerce officials, recruited from industry, tended to be reasonable, flexible, practical men in contrast to the usual pettifogging, legalistic bureaucrats. He also relied on voluntary cooperative action, implemented through a vast and amorphous network of trade associations, professional societies, chambers of commerce and other voluntary organizations, rather than utilizing coercive legislation. The associational network might be slow-moving and cumbersome, but he apparently felt he had the energy, organizational skills and staff to keep it functioning. Its participatory nature would, he thought, improve decision-making and enhance compliance. Some antitrust problems loomed, but Hoover was able to win tacit support from the Federal Trade Commission and the Antitrust Division (Hawley 1974). Hoover later said (1956):

"Only a few of the literally tens of thousands of standardizations or simplifications have been imposed by law. The vast number of them have been the result of spontaneous, voluntary, yet organized cooperation within highly individualized industry. To secure acceptance of any one of these has been tedious at times. But their adoption has been playing a real part in the creation of the cooperation so vital among a free people."

Again the reductions were impressive. Industry-wide simplification agreements reduced paving bricks from 66 to 7 varieties; files and rasps from 1,351 to 496 types; and milk bottles from 49 to 9 designs (Cochrane 1966, p. 259). Another source (National Industrial Conference Board 1929, pp. 282-83) says milk bottles were ultimately simplified to four designs; hotel chinaware went from 700 to 214 varieties, cafeteria and restaurant china from 700 to 243; railroad dining car chinaware from 700 to 276; and hospital chinaware from 700 to 279 varieties. (The figures suggest considerable overlapping, but apparently even after simplification the manufacturers made some adjustments for their hotel, restaurant, dining car and hospital market segments.) About 80 such Simplified Practice Recommendations were in effect toward the end of the decade. A study in twelve major industries reported 79.5% compliance (Cochrane 1966).

The industry-wide recommendations included some that affected consumer goods components (e.g., milk bottle designs) and consumer staples (e.g., mattress and innerspring sizes). Some individual consumer goods companies pruned their own product lines and reported increased profitability (another marketing concept characteristic) through concentration on the most popular items (Coles 1949, pp. 176-77; Frey 1940, pp. 179-88).

But by far the main emphasis was on industrial goods and government supplies. Some consumerists even complained that the program orientation showed a desire to help business profits but not individual consumers (e.g., Brady 1928). Hoover's attitude was probably summarized by his chauvinistic remark (1956) that he did not try to standardize ladies' hats, as some critics had accused him of doing, because millinery was "a thing of joy" and joy could not be standardized. As Brady (1928) said, any mail order catalog would demonstrate the diversity of consumer goods.

Collapse

In spite of the reported successes, many factors sapped the crusade's momentum by the end of the 1920s. Marketing teachers who now advocate a high degree of product diversification might be interested to know that Hoover (1956, p. 77) described the opponents of his entire efficiency program as "the conglomeration of professors and intellectuals tainted with mixed socialist, fascist and antique ideas." (Please note that the distinction between

professors and intellectuals is Hoover's, not the present author's.)

Some jurisdictional squabbles between the American Standards Association and the National Bureau of Standards (Library of Congress 1974) probably were not helpful. The Bureau's appropriation was sharply reduced after 1930 but that may have been more symptom than cause. The main problems were commercial and market oriented. Cochrane (1966) notes that consumer prosperity during the 1920s increased the market demand for distinctive products, but this should have had only indirect effects upon the simplification of industrial goods. The main thing was that, both after World War I and after the first enthusiasm for 1920s simplification, manufacturers sought to meet "the real and fancied" desires of their dealers and customers (Hudson 1928). They often felt that reducing their product lines, particularly to industry-wide uniformity, meant giving up competitive advantages (see: Hudson 1928; Soule 1934; Murphy 1943). The voluntarism that characterized the Hoover program contributed to the instability of many simplification and standardization programs since conforming firms often had no means of restraining the competitive advantages of aggressive non-participants (Cochrane 1966, p. 261).

World War II

In an effort to maximize both military and essential civilian output, the government mounted a massive simplification program during World War II. Largely implemented through War Production Board Limitation Orders and allocation programs, it was similar to the efforts of World War I but larger in scope. Some products such as private automobiles, were entirely removed from production. Others were "rationalized" to reduce waste, as in the ban on cuffs on men's trousers or the reduction in margins on book pages. In other instances, such as cotton work glove production, available varieties were reduced by fifty percent or more (Library of Congress 1974, Cochrane 1966, Murphy 1943, and the author's personal experience). The effects of these restrictions evaporated fairly rapidly after the war.

IMPLICATIONS

Evaluation of Simplification and Standardization

The managerial and social advantages and disadvantages of simplification and standardization do not need extensive rehearsal. For the individual firm, elimination of excess styles, varieties and models permits concentration on core products. Subject to some exceptions, this tends to reduce ingredient, processing, inventory-carrying and marketing costs and enhances the productivity of the resources employed in the firm. Levitt (1983) points out that offering the same product to different (geographic) markets can prevent imputations of considering one inferior to another. Mass production itself is based on a standardization of parts and processes, at least within the firm or plant. Industry-wide standardization/simplification ranges from highly desirable to essential in instances of interdependent usage, such as with railway track widths (standard gauge) and freight car coupling devices. Evolutionary patterns in such supply part industries as amateur photographic film, razor blades, and phonograph records illustrate the tension between the consumer convenience and potential mass market of interchangeability and the sheltered market for designs that require brand-specific components. Standardization is essential for sale by sample or grade.

Simplifying lines, however, reduces consumer choice and market adaptation. Unless all competitors follow suit, it can reduce the simplifier's share of in-store display space. In an evolutionary world, standardization/simplification can freeze designs far short of optimum development. Industry-wide simplification interferes with competitive differentiation (a result some may consider a boon and some a bane). Industry-wide concentration on similar products may focus competition on price or it may abet price agreements (Witmer 1956, Edwards 1956). Critics allege that simplification/standardization increases the monotony of life, that it induces the rationalization and "McDonaldization" discussed earlier. Proponents counter that by reducing costs (and ergo prices), it increases the average individual's effective choices, and that standardized components can be combined in innumerable diverse permutations (Whitehead 1932). The latter argument is one of moderation, it seems to call for mass produced building materials but not mass produced houses.

The Lessons of History

We can find three great periods of simplification in modern American industrial history: World War I, the 1920s, and World War II. All three were both preceded and followed by periods of great product diversification. During all of this time individual companies pursued different product strategies, even within the context of wartime product regulation. The managerial lesson seems to be that the choice of wide versus narrow assortments is situational. For each firm it depends upon whether price and certainty or customer adaptation provides the greatest differential advantage per resource dollar in the light of customers' preferences and competitors' offerings. Even the epitome of McDonaldization, McDonalds has had to vary its offerings geographically, with suburban sites in some countries and urban ones in others, and with beer and wine in some places but out of the question in others. From time to time, as managerial action and marketing thought alternately overemphasize one approach or the other, exhortations for correction and balance become desirable.

The Marketing Concept

The experience indicates that marketers fifty and seventy years ago were very much interested in their customers. No psychogalvonometer is available to tell us whether they were somewhat less, just about as much, or somewhat more interested than modern marketers. Nevertheless, they were clearly interested in trying to find the mix of price and product line attributes that would appeal to their audiences. The present author will argue elsewhere that they also integrated, or tried to integrate, their advertising, personal selling and other marketing efforts. Here the claim is made that insofar as customer segmentation and orientation are part of the marketing concept, that concept existed long before World War II.

Theory Potential

It is tempting to say that marketing history contains alternating cycles of simplification and diversification. That probably is often the case within any one company, since managerial orientation in either direction can easily be carried to excess and then will require corrective action. At the macromarketing level, we should distinguish three types of simplification/standardization. One is emergency imposed simplification to meet wartime or other crisis needs. This does not rest on the inherent needs of either buyers or sellers (as such) and will be replaced by "normal" diversification when the emergency passes. The Hoover standardization was really a somewhat similar idiosyncratic imposition. The second involves interconnection and interchangeability, including remote trade by sample, grade, or brief description. The secular trend here seems toward more standardization. The major short-term deviations around that trend come when an innovative product manufacturer sees a profit opportunity in keeping control of some important supply item or replacement part. The most general trend toward standardization/simplification results from the substitution of machine production for hand craftsmanship, first in product output and

subsequently in service trades. This trend is somewhat offset by increasing machine flexibility and with high levels of prosperity by consumer diversity. The actual degree of standardization at any one time is a function of all of these vectors.

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[31]

AGRICULTURAL MARKETING: A REVIEW OF THE LITERATURE OF MARKETING THEORY AND OF SELECTED APPLICATIONS*

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Agricultural marketing in Britain has been primarily concerned with government policies towards distribution and processing of farm produce; the theoretical framework on which it rests is that of economics. It is argued here that: the orientation of agricultural marketing studies has been too restricted in that they have given insufficient attention either to marketing as a business subject or to 'social marketing'; and that the behavioural sciences are a necessary complement to economics as a theoretical framework for studies in agricultural marketing. The review examines the role of these alternative theoretical approaches and illustrates their value by reference to two selected topics of importance in Britain; first-hand marketing institutions and the marketing of meat and livestock.

1. Introduction

1. Scope of this review

In writing this paper, I have tried not only to explain but also to adopt 'the marketing concept' – the view that products should be designed to meet the needs of chosen customers. My chosen customers are agricultural economists; a review with this title but written for an audience of marketing specialists would have been very different. Its objectives are: to elucidate different concepts of marketing and to show that marketing studies are much less narrow, rather more exciting and potentially far more socially useful than agricultural economists might suppose; to suggest some problem areas in the field of agricultural marketing and to indicate ways in which agricultural economics can contribute to their solution; to show the deficiencies of economics and the possible contributions of other social sciences.

The eclectic nature of the subject makes it impossible to review all the relevant literature. In Section I (dealing with the content of marketing) and Section II (dealing with marketing theory) I have tried to indicate most of the important references in English that are known to me. Section III illustrates the application of the theory to two selected topics, both relating to first-hand marketing in Britain; there is much important literature which is therefore not mentioned simply because it deals exclusively or primarily with other topics.

2. Scope of agricultural marketing

The subject 'agricultural marketing' has a longer history as a recognised area of study (at least in Britain) than does 'marketing'. What is the content of these subjects and what relationship exists between them?

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The study of *agricultural marketing* in Britain derived much of its impetus between the wars from the problem of low farm prices. A considerable number of official inquiries into these problems produced recommendations with a continuing theme*: the low prices were believed to be associated with inefficiencies in the distribution of agricultural produce from farmer to consumer, with farmers' inadequate bargaining power and with the lack of grading of agricultural produce. The solutions were considered to lie in the hands of governments (at least in the first instance) rather than of farmers themselves, and institutional means such as Marketing Boards were seen as the appropriate line of action. Thus, agricultural marketing was strongly oriented towards logistics and towards policy. The view that marketing problems are synonymous with low farm prices and with rapacious or inefficient middlemen and that the government should do something about it is still prevalent amongst farmers.† Agricultural marketing textbooks commonly present some elementary economics (usually only price theory but sometimes criteria for assessing the efficiency of distributive structures) followed by a discussion of case studies under the headings of functions, commodities, and institutions (e.g. Shepherd, 1965; Kohls, 1961).

Marketing has become an academic subject in Britain only since about 1960. Its points of contact with agricultural marketing, as described in the last paragraph are not conspicuous. The central idea is the marketing concept – the idea that the customer is not merely the person who happens to be at the end of the line but that his needs and wants should dominate the whole pattern of activity within the firm (Levitt, 1960); firms should be market-oriented rather than product-oriented.‡ Implicit in the marketing concept is the idea of market segmentation, that is, of producing goods and services specifically designed to meet the needs of selected groups of customers (or market segments). In this context, 'designed' refers partly to the physical product and its packaging: product planning and development is thus concerned with the firm's need to adapt the product for new markets, to modify the product to maintain its suitability for the existing markets and to search out new products. But 'designed' also refers to characteristics

* See Linlithgow Report (1923 and 1924) and the subsequent Orange Book Series published by the Ministry of Agriculture.

† Not only farmers. Two early post-war articles on the Future of Agricultural Marketing (Whetham, 1949; Shaw, 1952), identified marketing exclusively with physical distribution and processing. Shaw explicitly and Whetham implicitly define the aim of policy as being to narrow the gap between the producer price and the consumer price, and both are primarily concerned with the institutions (Marketing Boards, Co-ops or Commissions) which might achieve this. Allen (1959) writes ' "Marketing" and "distribution" are used synonymously except where the context clearly indicates otherwise'. More recently, Kohls (1961) in a widely used text says 'Marketing is the performance of all business activities involved in the flow of goods and services from the point of initial agricultural production until they are in the hands of the ultimate consumer'. Even more blatantly, 'Marketing is important all the way from the farmgate to the shop. This Green Paper deals mainly with the first stage of food marketing, when farmers or growers dispose of their produce' (H.M.S.O., 1972). These restricted approaches to agricultural marketing are in sharp contrast with those commonly adopted in relation to the marketing of non-agricultural products as will be argued subsequently. For a further discussion and an historical outline of different concepts of agricultural marketing see Breimyer (1973) and Sweeny (1972).

‡ The marketing concept is often stated as a self-evident truth but it seems more satisfactory to regard it as a hypothesis, viz., that firms are more likely to achieve their objectives if they adopt the marketing concept. That an alternative hypothesis is possible is implicit in Emerson's view: 'if a man . . . make a better mousetrap than his neighbour, though he build his house in the woods, the world will make a beaten path to his door'. Exponents of the marketing concept generally emphasise that its importance rests on the fact that rising standards of living have given the consumer relatively large discretionary incomes. Thus, 'the old concept starts with the firm's existing products and considers marketing to be the use of selling and promotion to attain sales at a profit. The new concept starts with the firm's existing and potential customers; it seeks profits through the creation of customer satisfaction; and it seeks to achieve this through an integrated corporate-wide marketing-program' (Kotler, 1967).

associated with the physical product – *promotion* (including personal selling, merchandising, advertising), *distribution* (logistics and channel selection) and *price*. Furthermore, in trying to find optimal strategies in relation to each of these decision-variables, the firm has to recognise that they cannot be considered independently: the optimal distribution channel, price, type of product and promotion are interdependent and the firm must seek the best combination of them, i.e. the optimal marketing mix. In deciding on this optimal marketing mix, the market-oriented firm must take account not only of the needs of final consumers but also of intermediaries (wholesalers, retailers, roundsmen, shop assistants, etc.).

None of this amounts to a definition of marketing. Some definitions are so broad as to identify it with the whole management function. More meaningfully, marketing has been defined as dealing with 'customer-impinging' matters: 'Marketing is the analysing, organising, planning and controlling of the firm's customer-impinging resources, policies and activities with a view to satisfying the needs and wants of chosen customer-groups at a profit' (Kotler, 1967). This definition is suggestive of several points: that marketing is oriented towards the activities of firms, not governments; that the concern with consumer needs is not altruistic but is a necessary condition for the firm to achieve maximum profits (or whatever its objective may be); that the firm tries to satisfy *chosen* customer-groups; that in relation to the relevant decision-areas (product, pricing, distribution and promotion), marketing is concerned with collection and analysis of information, decision-making and control; finally, compared with popular ideas of what constitutes marketing, it is emphatically not concerned solely or even primarily with advertising and sales promotion.

Previous paragraphs have described 'agricultural marketing' and 'marketing'. What relationship (if any) exists between them, what are the reasons why agricultural marketing has developed separately, and what can agricultural marketing learn from or offer to the mainstream subject? The following points are relevant to these questions:

1. Marketing has developed as a business discipline concerned essentially with business decisions and business objectives. Agricultural marketing has developed primarily as a policy subject concerned with governmental intervention.

2. There are obvious reasons why students of agricultural marketing, concerned as they have been with farmers' problems, have paid relatively little attention to business aspects of the subject. Farmers' opportunities for applying the marketing concept are limited by the size of their enterprises* (which preclude those marketing activities involving substantial economies of scale) and by the biological nature of production (which generally militates against the production of the precise qualities required by consumers). This does not mean that there is no room at all for farmers and farm advisers to make use of ideas from marketing (Carpenter, 1972; O.E.C.D., 1966).

3. The concentration of agricultural marketing on logistics – which is only one of the major areas studied by marketing generally – probably reflects

* Though the limitations can to some extent be overcome by structural changes, including co-operation; agricultural marketing is thus closely concerned with such problems. It is not true that farmers' marketing activities are limited, as is sometimes said, by the fact that farmers do not sell direct to consumers: nor do most food processing firms; or by the fact that farm produce is homogeneous: it is unlikely that different farmers' eggs are any more homogeneous than different detergent manufacturers' detergents. Kotler (1967) discusses the relationship between the characteristics of goods and the appropriate marketing strategy.

the belief that this is quantitatively the most important area and that it is the area most open to influence by policy-makers. It is curious that this area is only now beginning to receive serious attention outside agricultural marketing: 'distribution is the economy's last dark continent . . . a crucial management issue of the seventies' (Christopher and Wills, 1972).

4. Marketing as a business subject divides itself into various specialisations. Examples are consumer marketing, industrial marketing and international marketing. Agricultural marketing as a business subject is merely one such sub-division though whether it is a branch of consumer marketing or of industrial marketing is arguable (Breimyer, 1973).
5. The optimality or otherwise of any marketing decision made by a firm is not independent of the marketing environment within which the firm has to operate. One aspect of the environment is government policy – both the descriptive aspect (what legislation exists at present) and the more fundamental issue of why the policy is what it is. Thus, policy (the subject matter of traditional agricultural marketing) overlaps with what in the context of more recent marketing thought would be called marketing environment.
6. The points made so far suggest that traditional agricultural marketing (concentrating on logistics and on government policy) is a narrower subject than marketing. In one respect it is broader. Agricultural marketing has always encompassed everything which happens between the farmgate and the consumer including food processing. Indeed the size of the 'marketing sector' is sometimes defined in terms of the difference between farmgate receipts and consumer expenditure on food (e.g. Wollen and Turner, 1970). Thus, the agricultural marketer often finds himself examining areas which the purist would dismiss as 'not marketing'.
7. In an economic context, the government can be regarded as having two main functions. One is to supply goods and services itself (health, education, defence, or, in the agricultural field, the services supplied by A.D.A.S., M.L.C., the C.C.A.H.C.) and the other is to act as a regulator of the efficiency with which private business supplies goods and services. In both roles the government, just as much as business itself, is faced with the problem of finding out what the consumer wants and ensuring that proper consideration is given to product planning, promotion, physical distribution and pricing. An outstanding example of the failure of policy-makers to be sufficiently market-oriented was the attempt to set up an R.D.B. in Mid-Wales – a technically (perhaps) good 'product' which farmers refused to 'buy' either because it did not, or they believed it did not, meet their particular requirements. The idea of applying the marketing concept (and all that it implies) to the provision of government goods and services has been dubbed social marketing or meta-marketing (Wills, 1974; Kotler and Zaltman, 1971, and other articles in the July 1971 issue of the *Journal of Marketing*; Kotler 1975). It has the dual advantage of giving marketing a much-needed social role and of doing so at a time when its role in business – founded on growing real incomes – is becoming less obvious.*

These ideas suggest that agricultural marketing can be viewed as a business

* Less obvious, but not superfluous. The problem of the role of marketing in a recession has received a good deal of attention (e.g. Kotler, 1974), and one concept which has evolved is that of 'demarketing'. Demarketing has applications both in private industry and in public policy. An example of the latter might be its use to reduce or deflect the excessive 'demand' of climbers and walkers for exercising themselves on areas such as Snowdonia. Many marketing practitioners would not agree with my view that, marketing does not already have a social role and indeed their emphasis on meeting consumer requirements is meant to give it one; however, they do not seem to have been successful in promoting themselves to the general public.

subject (what should farmers, processors, retailers, etc. do about marketing?); as a policy subject (should the government influence agricultural markets?); and as an aspect of social marketing (how should governments market agricultural policies?). Some people would argue that these problems are not sufficiently distinctive to justify a special subject, 'Agricultural Marketing'. Such a view is plausible, but the contrary view – that while the concepts and tools of marketing are the same for all industries, there can be sufficient differences and sufficient empirical material relating to particular industries to justify a special treatment – is also strong. Agriculture, in particular, does have peculiarities – the biological nature of production and its dispersed nature, its market forms and generally long distribution channels and consequent information problems for producers, the institutions which have been created to deal with these problems, and the extent of available data.

3. Sources of marketing theory

The previous section outlined the questions with which agricultural marketing is concerned but said nothing about the methodology of answering them. The issue of whether there is such a thing as marketing theory is a perennial one amongst marketers (Halbert, 1965). Pickard (1972) argues that 'Archimedes and I are not in the same line of business' on the grounds, first, that relationships established in the social sciences are not of lasting validity, second, that consumers are not rational and, third, that businessmen have motives other than the simple ones commonly supposed;* he concludes that 'the disparity between sophistication of methodology and impoverishment of content in marketing studies is often disturbingly marked'. Standard replies to such criticisms are that everyday experience confirms that social behaviour is not unpredictable and therefore, theories – *even if* of temporary validity, have broadly the same purpose and value as in the sciences and that relationships in the social sciences as in any other science are in principle of lasting validity though particular theories need modification and synthesis into more general theories as the science progresses.

My view is that the question, 'Is there a theory of marketing?' is equivalent to the question, 'Is there a theory of agriculture or of medicine?' In each case the answer is that the particular problem area is one of practical day-to-day decision-making; that effective decisions can frequently be made by people with little theoretical knowledge, provided they have experience or feel; that these decisions rest, knowingly or not, on a variety of established sciences rather than on any single science of marketing or of agriculture or of medicine. Good marketing practice requires the art of applying whatever sciences appear relevant to the problems implicit in the definition of marketing. At any moment of time a knowledge of marketing theory is neither a necessary nor a sufficient condition for good marketing practice, but over time, a knowledge of theory is a necessary condition for improved marketing practice. Pickard himself says that 'the one absolute essential in a marketing man is what might be called a pattern-making ability' and it is precisely this ability which is the distinctive contribution of the mathematician and theoretician.

Assuming that there is some theoretical foundation for marketing, then since marketing is concerned with customers' needs and wants, it is the social sciences which are most likely to provide it. Marketing is an applied social science. The social sciences as sources of marketing theory will be discussed in some detail in

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* Another possible line of objection is that any attempt to forecast human behaviour implies a deterministic view of the future which is (a) unacceptable in itself and (b) inconsistent with the objective of forecasting (since it is only *possible* to forecast if the future is predetermined but it is only *worth* forecasting if the future is, through our own decisions, malleable).

subsequent sections, and a brief indication of their contribution will help to put these sections in context.

Positive economics might be defined (circularly) as being concerned with establishing relationships between economic variables. In so far as the variables selected by economists are ones which are of interest to marketers, economics would seem to have something to offer and most laymen would probably suppose that economics was the only relevant discipline. Unfortunately, although economists' hypothesised relationships often seem intuitively plausible, they leave unclear the precise reason for the relationship between the stimulus (say, advertising) and the response (say, increased sales). The nature of this relationship ('the black box') is one which the *behavioural sciences* try to explain by postulating intervening variables (such as values or attitudes). It is sometimes said that the economist studies the what of consumer behaviour and the behavioural scientist the why (Wentz and Eyrich, 1970), but if this were all it would leave the marketer unconcerned with the behavioural sciences since in the end it is only the what which he needs to know. A more illuminating approach is to suggest that the economist uses casual layman's intuition in hypothesising about the behaviour of individuals and institutions, while the behavioural sciences try to specify in more detail the linkages involved. In so doing the behavioural sciences may develop alternative hypotheses or at least introduce additional variables less aggregated than those used by the economist. Although it is fashionable amongst marketers to decry economics in favour of the behavioural sciences, I argue that economics and the behavioural sciences are best regarded as complementary rather than competitive.

Previous paragraphs emphasise the predictive role of theory, but frequently in agricultural marketing we are concerned with how firms or governments *ought* to act – so-called normative questions. Provided that the decision-maker has clearly specified objectives, normative and positive questions are simply different facets of the same problem. For instance, the economist who *predicts* that if businessmen maximise profits they will fix output where $MR = MC$ has implicitly provided businessmen with the optimising rule that they *ought* to fix ouptut where $MR = MC$ in order to maximise profits; optimising rules of this sort are essentially by-products of economics or of other social sciences and they are not always operational, but where they are operational they can be of particular value to marketing as a business subject (see, for instance, Palda (1969)).* Sometimes, however, positive and normative problems are more distinct than in this example; in particular, there are situations in which either objectives are not clearly specified (generally because there are several objectives and trade-offs are not known) or the objectives are inherently unmeasurable (e.g. 'welfare') so that theories cannot be tested. This situation arises most frequently in relation to policy problems, and since agricultural marketing policy is of major importance it will be necessary to examine what theoretical foundations there are for assessing marketing performance.

It has been argued that positive economics, normative economics and the behavioural sciences provide a theoretical basis for marketing, and the contributions of each of these sources of theory will be examined subsequently. Quantitative methods are also highly relevant to marketing, partly as a corollary of the view that social sciences – themselves increasingly quantitative – are relevant, but also because marketing, as an applied subject, is necessarily concerned with quantitative predictions. The role of quantitative techniques in marketing is not, however, on a par with the role of the social sciences. Social sciences provide the theory on which marketing predictions rest, and are a source of ideas; quantitative

* Operations research on the other hand is explicitly concerned with providing decision rules which are operational and this also contributes to marketing theory.

techniques provide a tool which can be used for testing and quantifying such ideas – a useful, even essential, tool, but not in itself of interest.*

II. Marketing Theory

This Section is labelled Marketing Theory but it follows from what has been written already that it will consist of the adaptation to marketing problems of theories which have often been constructed for application in other contexts.

1. Positive economics and agricultural marketing

The variables of interest to the economist may be divided into those which the marketer takes as given (part of the environment) and those which are for him decision variables. Those in the first category cannot be ignored, for accurate predictions about them may be essential to efficient marketing. For instance, predictions of next year's consumer incomes may be relevant to marketing decisions relating to many types of product; so, if macro-economics can help in forecasting next year's incomes, it is relevant to marketing. In order to impose some limits, however, attention will be concentrated on (though not confined to) theories dealing directly with marketing decision variables rather than with environmental variables. Sorenson (1964) provides a more detailed review.

(*i*) *Industry models* Both for farmers and for buyers of farm produce, the price mechanism plays a much more important role in the transmission of marketing information than is the case in most non-agricultural industries. Because its ability to do so effectively is frequently hindered by price instability, agricultural marketers have been closely concerned both with the causes of instability and with its effects in terms of free market responses and government policies.

The cobweb model (reviewed in Waugh, 1964 and McClements, 1970) is a possible cause which has received frequent study: Allen (1959) builds much of his review of agricultural marketing policies on this model. The effects of instability on consumers have been examined by Waugh (1966) and on farmers by Tisdell (1976).

The stabilisation processes engendered by a free market include speculation in the physical commodity and also the development of futures markets where both speculation and hedging can take place. Briefly, the existence of a futures market might be expected to have three effects: it can enable risk to be shifted from producers and traders to speculators; it may contribute to the supply of market information since futures prices can be regarded as the free market's forecast of what prices will actually be; and it may, if these forecasts are believed, influence the decisions of producers and traders so that price fluctuations for the physical commodity are minimised. In Britain, the only futures markets for domestically produced agricultural produce are those for wheat and barley. This can hardly account for the fact that neither the theory of futures markets nor its testing has

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* Some texts on quantitative marketing are Kotler (1971); King (1967); Uhl and Schoner (1969); Buzzell (1964); Montgomery and Urban (1969); Day and Parsons (1971). Briefly, marketing decisions, like those in other areas, involve five stages: first, objectives; second recognition of the range of decision-variables (the creative area in marketing); third quantitative information on the historical relationship between the objectives and the decision-variables; fourth, prediction of the future relationship; fifth, a decision. Quantitative methods are primarily relevant in connection with stages three, four and five, but it is perhaps in relation to stage three that the methods used are ones which would be least familiar to most quantitative agricultural economists. Basic ideas of survey design are discussed by Moser and Kalton (1971), while specific issues such as panel and quota methods and developments in questionnaire design and analysis including scaling and projection techniques are outlined in Oppenheim (1966) and Seibert and Wills (1970). Experimental methods are more widely used as a means of obtaining information in marketing than in economics (e.g. Carpenter, 1972). Marketers have also been particularly concerned with assessing the value of information (e.g. using Bayesian decision theory as in Day and Parsons, 1971).

attracted serious attention from British agricultural economists; one question which they might have studied is the effects of setting up such markets for other commodities. Rees (1976) has examined the theory and practice of grain futures markets for the Home Grown Cereals Authority and Goss (1972) provides a compact account of the theory.

Where the free market does not bring about the desired degree of stabilisation there are a variety of policy measures which can be adopted, e.g. price control, market intelligence, government sponsored futures markets, buffer-stocks or buffer-fund schemes. Economic models have been particularly useful in analysing the multiple effects of buffer-stock and buffer-fund schemes and in identifying trade-offs though more attention is usually given to the effects on producers than on consumers. Conventional static models have been used, for instance: to examine whether the existence of a contract market for wheat could destabilise the free market (F.A.O., 1952); to show how a buffer stock scheme, though stabilising prices, might reduce the gross income of farmers and/or the stabilising authority (Bateman, 1965); to explore the various effects of buffer fund schemes (e.g. Snape and Yamey, 1963); more recently, Blandford (1974) has shown how econometric techniques combined with simulation methods can be used to identify trade-offs between alternative policy variables when buffer funds are set up and Takayama and Judge (1971) have shown that the similarities between spatial and temporal problems permit the application of spatial programming models to problems of temporal allocation. The practical relevance of stabilisation models is exemplified by Houck (1973).

Price instability is one of the reasons why so much attention is given to the 'marketing' margin (i.e. retail price minus farm price), an object both of abuse by farmers and concern to policy-makers. Margins themselves are usually relatively stable in the short term and this fact has been the focus of both theoretical and empirical studies (Hallett, 1961; McClements, 1972; Price Commission, 1974–75). For the determination of margins in the longer term the underlying theory was set out long ago by Nicholls (1941), but it is probably fair to say that most studies in this area are empirical rather than theoretical in approach. An effect of this empirical bias is that margins are often measured without any clear-cut objective, the result being fruitless and irresolvable arguments about how what has been measured ought to have been defined (Beckman and Buzzell, 1955). Several studies try to decompose changes in margins into a variety of possible causes (Wollen and Turner, 1970; O'Connell and Connolly, 1975). The problem is that neither the level of margins nor the long-standing downward trend in the farmers' share is an adequate measure of inefficiency (Hallett, 1968; Bateman, 1972). In the end, if the objective is to determine whether marketing costs are higher than is necessary, the most straightforward approach is in terms of other variables, e.g. the profits of processors and distributors rather than their margins (Price Commission, 1975).

Monopoly or monopoloid organisations are not uncommon in agricultural markets – they include agricultural marketing boards in Britain, marketing orders in the U.S., export marketing boards or co-operatives in several countries and, at the international level, international commodity agreements. These organisations usually differ in important respects from textbook monopolies; for instance, they do not usually have direct control of output and, even if they do, they are normally subject to legal restraints. With appropriate modifications, however, standard theory leads to some important results (though these results need more rigorous testing than they are usually given). For instance, Nash (1961), showed how the textbook model could be adapted to describe the situation in which the producers' monopoly has no direct control of output, and several authors have examined what the implications might be if the producers' monopoly does try to

control output (Hoepner, 1964; National Farmers' Union and Milk Marketing Board, 1966).

The industry models dealt with in this section are most likely to be relevant to the policy maker or to the businessman wanting to predict environmental variables rather than to the businessman seeking optimal values of decision-variables. The applications of monopoly theory are an exception since in that situation the firm and the industry are the same. Some other aspects of the theory of the firm are reviewed in the next sub-section; these again have normative as well as positive applications in marketing.

(*ii*) *The theory of the firm*

(a) *Pricing and market forms*. To a farmer, perhaps the most characteristic feature of agricultural markets is the length of the marketing chain and the domination of the competitively organised sellers by oligopsonistic buyers. What, then, has the theory of pricing and market forms to offer to marketing?

An illustration of the way in which price theory can have practical application in marketing is given by the theory of multiple product pricing. At one level, the theory is relevant to organisations such as agricultural marketing boards selling say, fresh milk and processed milk with interrelated demands and there are many other such examples (Palda, 1969, deals with both theory and applications). At a different level, the theory relates to the pricing of goods in supermarkets, an important issue in the context of agricultural marketing since the fixing of the retail price implicitly fixes the retail margin – generally the major part of the distribution costs which bother farmers so much. Several models have been developed (e.g. Preston, 1962; Holton, 1957; Holdren, 1960). The Holdren model, for instance, leads to the conclusion that margins will be lowest (possibly negative) for goods which have a low elasticity of demand, and a high 'transfer effect' (i.e. willingness of customers to switch from one shop to another). Such models, besides helping to explain why margins are as they are (the Holdren model, for instance, could yield some explanation of the levelling and averaging practices of butchers), may also provide manufacturers with the necessary information to *influence* the margins for their products: McClelland (1966) suggests that manufacturers may pack in large units in order to increase the transfer effect and thus reduce margins; it is not inconceivable that under some circumstances manufacturers may prefer high margins (as indicated by their use of resale price maintenance legislation) and again an understanding of how margins are determined might be relevant to them.

Co-operation provides another area where price theory is potentially valuable in agricultural marketing, though in this case the potential has not been realised – the area is an underworked one despite the fact that co-operative forms of organisation are widely advocated and are, in practice, of some importance in agricultural and food marketing both at first hand and in processing and retailing. Helmberger (1964) argues, plausibly, 'The special treatment accorded co-operatives . . . must surely require some rationalisation in terms of the manner in which co-operative marketing affects the allocation of resources, marketing margins and returns to farmers'. In several articles, Helmberger and others have developed such models but this work has not been incorporated into the general body of the literature where the discussion of co-operation is usually cursory and unconvincing (e.g. Shepherd, 1965; Verdon Smith, 1964). In Britain, it might have been expected that agricultural economists with their experience of co-operation would have had something to contribute to the recent discussion of labour-managed firms (Meade, 1972); in fact, British agricultural economists have shown almost no interest in the theory and they seem likely to be beneficiaries from rather than contributors to the debate. The models referred to so far are essentially static

analyses of the effects of co-operation, but a question of great practical importance is what are the conditions under which co-operatives are likely to develop? For marketing co-operatives it seems plausible to suppose that necessary (though not perhaps sufficient) conditions for co-operation must be either economies of vertical integration or opportunities for price-bargaining. Helmberger and Hoos (1962) argue, not entirely convincingly, that 'basic to the formation of a co-operative . . . is some element of reform or revolt against the present system' Galbraith's (1963) theory of countervailing power has a similar implication. He argues, first, that oligopoly/oligopsony power on one side of the market will lead to a countervailing oligopsony/oligopoly power; second, that this new situation of bilateral oligopoly is in some sense good; third, that in the case of agriculture, the countervailing power may not (despite the first strand of the argument) develop so governmental encouragement is needed – a justification for Marketing Boards and for assistance to farmer co-operatives. An alternative justification for co-operative conduct (and an examination of those factors which are conducive to it) is provided by Olsen (1965) while conditions for collusion (i.e. illegal co-operation) are discussed by Palda (1969). The whole subject is one which needs fresh and detailed study.

These illustrations show that price theory has a contribution to make to marketing. Nevertheless, the contribution is probably small compared to the effort which economists have devoted to this field. There are several reasons for this: first, economists' theories are more fruitful in terms of specific predictions in the case of those market forms which are hardest to find in the real world; secondly, economists have paid rather little attention to the fact that producers do not sell direct to consumers (though see Nicholls, 1941); thirdly, marketers are often primarily interested in non-price aspects of the marketing mix, aspects to which economists have paid least attention.*

(b) *The marketing mix and its components.* In marketing the price decision for the firm constitutes only one part of the marketing mix and we need to ask also how the firm decides on the nature of the product (or range of products), the level and type of promotion and the distribution channels; furthermore, it has to be recognised that decisions in this area are interdependent.

Economics offers several approaches to dealing with elements of the marketing mix other than price.

(1) The traditional approach would be to regard each element of the marketing mix as an activity. Then, given the profit maximisation assumption and given appropriately shaped production and demand functions, the conventional marginal rules apply – just as they apply to the determination of optimal output combinations on the farm; thus the various activities should be carried to the point where marginal revenue productivities are equal. The problem of estimating the precise form of the relevant functions means that such rules are of most value to the economist wishing to make general predictions, but they are by no means useless in practical business – Palda (1969) shows they can be applied to the allocation of the advertising budget. Furthermore, they provide a basis which can de developed.

* Unlike theory, empirical studies have not been concentrated on price. The approach has been the broader one of trying to establish links between structure, conduct and performance (Bain, 1959; Needham, 1969 and 1970; Scherer, 1970; Yamey, 1973). Though some of these studies try to test and quantify theory, many are primarily attempts to correlate variables which might plausibly be expected to go together, e.g. advertising and concentration, technological progress and concentration. Purely empirical studies have their dangers; for instance, some authors have supposed that advertising is a function of market structure (Reekie, 1975), while others have supposed that market structure is a function of advertising (Guth, 1971). Though structure-conduct-performance studies are common, they have not, at least in Britain, attracted the attention of agricultural economists to any large extent.

(2) The Dorfman–Steiner theorem (Dorfman and Steiner, 1954) indicates one such line of development and provides a rule with the possibilities of practical application. The condition that the marginal revenue product of a price reduction should equal the marginal revenue product of advertising implies that the numerical value of the price-elasticity of demand should equal the marginal revenue productivity of advertising. This rule can be extended to apply to other aspects of this marketing mix – the optimal quality is of particular importance in marketing since it is related to the idea of market segmentation. A dynamic version of the Dorfman–Steiner theorem has been developed by Nerlove and Arrow (1962) while Nerlove and Waugh (1961) have developed and applied a model for determining the optimal level of advertising by an agricultural co-operative which has no direct control over supply (incidentally, providing a basis for comparing some of the effects on resource allocation of co-operative *v.* non co-operative enterprises). From such models it is possible to derive conditions under which the widely-used business rule of thumb – that the advertising–sales ratio be kept constant – is justified as a condition for optimality. Furthermore, the fact that the optimal advertising–sales ratio is shown, under certain assumptions, to vary inversely with the price-elasticity of demand is a relevant consideration in discussion of the optimal level of generic advertising of agricultural products. To emphasise the practical value of such models is not to imply that there is no room for improvement: in particular, models which define optimal levels of advertising in terms of price-elasticity of demand ignore the fact that one purpose of advertising may be to alter price-elasticity.

(3) Several lines of approach which have been developed for dealing with non-differentiable functions are summarised by Palda (1969). Provided the appropriate linearity conditions are fulfilled, programming methods can be used, the most frequent applications being to media selection (Buzzell, 1964; Bass and Lonsdale, 1966).

(4) The problem of determining an optimal product line is a common one to most industries and familiar economic principles are applicable (Palda, 1969). There are two aspects of particular interest in agricultural marketing. First there is the question of retail assortment in supermarkets, an issue which can have implications for farmers amongst others; some examples of relevant models are reproduced in Tucker and Yamey (1973). Second, because the biological nature of agricultural production leads often to an almost infinite range of qualities, the problem of optimal product line is replaced for farmers (or governments) by the problem of determining an optimal grading scheme. Zusman (1967) shows that the optimal scheme depends on marginal rates of substitution between possible grades. A less technical account of the main issues involved is in Williams and Stout (1964).

(c) *Vertical co-ordination.* With long marketing chains, the problem of the vertical co-ordination of the activities of farmers with those of their buyers and suppliers becomes important. Free bargaining produces various methods of co-ordination, e.g. vertical integration or contracting or simple reliance on prices. Theories of the *causes* of different types of co-ordination merge into the theory of the growth of the firm: the method of expansion can be internal growth, merger, takeover or, in agriculture, co-operation, while the direction of expansion can be horizontal, vertical or conglomerate. Adelman (1955) queries whether any general theory of vertical integration is possible; 'given an expanding and changing economy, there must necessarily, at any instant, be a host of markets out of equilibrium into which it becomes profitable to integrate'. Several explanations

of vertical integration are discussed in Yamey (1973) including the hypothesis that it may be a substitute for a futures market. The *effects* of different forms of growth have also been examined. Machlup and Taber (1960) and Needham (1969) examine the effect of vertical integration on output and prices. Breimyer (1973) points out that when vertical integration occurs the role of pricing is circumscribed because the prices that are employed internally are only shadow prices. He asks 'should the newly internalised marketing processes be exposed to enquiry as part of marketing?'

(*iii*) *Spatial models* One of the major decision areas of marketing is physical distribution which includes logistics, the problem of finding the most efficient means of moving the product from the producer to the consumer. In agricultural marketing the fact that producers, as well as consumers, are dispersed makes logistics of even greater importance – to such an extent that agricultural marketing as argued earlier, has sometimes been identified with logistics.

Locational problems can be associated with economies of scale. Because there are economies of scale in farming (and also in this case because of other reasons), production is concentrated in particular areas; because there are economies of scale in transport, the raw produce is often bulked at collection centres before being moved (the collection centre being anything from a farmer's milk stand to an auction market or a port); and because there are economies of scale in processing and handling, there are various intermediaries between the farmer and the consumer. In the past, these various economies of scale have often been negligible, with processing taking place on the farm or in the household: it is technological change which has created economies of scale and, in so doing, has lengthened and increased the importance of the marketing chain.

These considerations help in understanding the long-term dynamics of spatial problems, but do not get us far in dealing with particular problems. Economic theory frequently assumes a spaceless world and location models, though numerous, are seldom well integrated into it. One of the most thorough attempts at integration (Isard, 1956) regards transport-inputs as factors of production which with the conventional factors (at various locations) can, via an appropriate production function, be transformed into consumer products at various locations. The attraction of this approach is that it is sufficiently general to synthesise all of the partial location theories into a single model. For many purposes, however, the partial location theories are more useful; their method is to ignore relationships which are quantitatively unimportant for the particular problem on which attention is being focused and the reward for this loss of generality is greater progress in terms of meaningful and testable predictions.

The partial models can be classified by methodological approach or by application. Methodological approaches include, on the one hand, statements of empirical relationships (such as Reilly's law of retail gravitation*) and, on the other, more conventional 'explanatory' theories. In terms of applications, there are theories dealing with the individual firm, the location of agriculture and other space-using activities, problems of externalities (between individual firms, for instance, or between regions) and international trade theory. All of these have more or less relevance to agricultural marketing problems but it is the location of the firm which is most directly relevant. There are several approaches. The simplest is to suppose that firms, factors and consumers can all occupy points in space, and the problem is to predict how the firm will determine its location. An extension of this, which is relevant to location of retail shops, is to suppose that consumers are dispersed (either along a road or over space). Theories of this kind (e.g. Lewis

* For a brief account with some applications see McClelland (1966). It is possible that the law could also be applied to assembly problems, e.g. farmers' choice of auction markets.

(1945)) have been used to examine how individual shops determine their locations, why shops cluster, the implications of and reasons for free delivery, the relationship between location of shops and their size and number. The operational value of such theories appears small, but their value to policymakers can be considerable, especially as the Lewis model has rather explicit normative implications.

Programming methods have both facilitated the consideration of more complex situations and have provided an operational approach to such problems. The linear programming transportation model can be used to provide optimal flows (and optimal price differences) between supply areas with given supplies and demand areas with given requirements. Extensions to the model make it possible to deal with problems in which there are (one or more) processing or handling or storage centres between producer and consumer; problems in which several commodities are jointly produced or processed or transported; problems in which there is spare capacity; 'long run' problems in which some of the capacity is still to be constructed; and problems in which supply and demand are not completely inelastic (Samuelson, 1952; Fox, 1953; King and Logan, 1964; Hurt and Tramel, 1965; Leath and Martin, 1966; Takayama and Judge, 1971).

Such models have several uses in agricultural marketing. On the one hand are direct quantitative applications: they can be used normatively within a firm (e.g. allocation of supplies to warehouses by Heinz (Henderson and Schlaifer, 1965); they can be used normatively by policy-makers to provide a standard for judging the operations of several firms (e.g., Shaw, 1970; Rayner, 1975); or they can be used for making predictions about transport flows, storage, processing levels or regional price differences under various assumptions (Fox, 1953). On the other hand, they could perhaps be used for making general predictions, e.g. to explore the hypothesis that where production is concentrated and consumption dispersed, physical collection centres tend to develop in the production regions (e.g. wool markets in Australia), while if production is scattered and consumption concentrated, collection centres tend to develop in consuming areas (e.g. markets for tea, coffee and sugar in London and New York). While the scope for applying these techniques is still enormous, they cannot be readily adapted to deal with all locational problems; Kuehn and Hamburger (1963) present an example of the use of heuristic methods to deal with a warehouse location problem. Uncertainty also needs to be incorporated into the models.

(*iv*) *Theory of consumer demand* The marketer's interest in the consumer is to find out how the market demand for a product is related to those variables under his control and to environmental variables. If he can establish the nature of such a relationship he can at least *predict* demand (which will help production planning), and ideally *influence* demand (by searching for optimal values of the control variables).

The topic of consumer demand is one to which both economists and behavioural scientists have made contributions (Kotler, 1965). It is common amongst marketers to criticise or even dismiss economic theories of demand for their lack of realistic assumptions (e.g. the supposed rationality of the consumer). This criticism is based partly on misunderstanding, for, as Palda (1969) argues, the economist's assumption of rationality does not imply 'exhaustive deliberation and expert knowledge on the part of the consumer', but only consistency and transitivity; in any case realistic assumptions are not a prerequisite of good theory.

A more serious criticism of the economist's theory of consumer demand is that its main prediction, that the demand curve will probably slope downwards, is a result which can be regarded as a well-tested empirical law which does not require

a theoretical basis (Mishan, 1961). Against this it has been claimed that 'the great strength of empirical demand analysis has been the existence of strong theoretical foundations which could be drawn upon or modified as practice demanded. This interplay between the theory and the reality has perhaps been more fruitful in this than in any other branch of economics' (Brown and Deaton, 1972). Ferber (1962) places similar emphasis on the methodological improvements which have occurred.

The predictions of demand theory are summarised by Green (1971), Brown and Deaton (1972) and, for the demand for inputs, by Cowling, Metcalf and Rayner (1970). These results are certainly not without value. In so far as the purpose of theory is to place a set of restrictions on any empirically fitted function so as to aid model specification, they do offer considerable help. Alternatively, they are useful if they are regarded as an examination of the assumptions upon which the pragmatists' empirically fitted functions must implicitly rest. Furthermore, the economists' studies of demand have been fruitful of ideas, some of which have become so well known that they may be under-valued, e.g. the concepts of elasticity and flexibility; the distinction of price, income and substitution effects and the concepts of gross and net substitutes and gross and net complements; the distinction between inferior goods, luxuries and necessities.

These are real contributions of practical use in marketing. At the same time consumer demand theory as developed by the economist is disappointing from the viewpoint of marketing as a business subject. There are several problems.

(a) Most of the theory deals with demand of individual consumers rather than with market demand. Although economists have examined certain aspects of the relationship between market demand and individual demand, they have simply ignored such issues as the varying roles of different members of the household; yet the distinction, for instance, between users, influencers, deciders and buyers is one which has obvious applications in marketing.

(b) Much of the theoretical work imposes restrictions on total demand systems rather than on demand equations for particular commodities. As Brown and Deaton note, much of the early success in fitting empirical demand functions was with agricultural commodities, the reason being that if there is a homogeneous commodity with stable consumer preferences and large fluctuations in supply, the single equation approach is satisfactory. To the extent that the single equation approach is still appropriate to agricultural commodities, demand theory offers least; to the extent that total demand systems are under consideration, the necessary degree of grouping is such as to permit little attention to the problems of business marketing with its emphasis on brands, packaging, etc.

(c) A great deal of marketing effort is concerned with the introduction of new products about which the theory tells us nothing. An approach providing some insight into this problem has been developed by Lancaster (1966) who argues that the preferences of demand theory should be thought of as relating to characteristics rather than to goods. Potentially this approach could bring the economists' theory of consumer behaviour much closer to that of the behavioural sciences.

(d) Perhaps the most fundamental objection of the marketing man to the economists' model of consumer behaviour stems from the selection of variables which the economist has chosen to study. Economists have focused on price, income and household composition – variables which are measurable and which are likely to influence demand for broad categories of goods (Brown and Deaton, 1972, p. 1150). Variables which are less readily measurable (e.g. 'tastes'), and ones which are most relevant to brand-shares rather than industry demand, are left out of the economists' theory. Even advertising is all but ignored; in Brown and Deaton (1972) there appears to be no mention at all, while Green (1971), in 300

pages, has room only for a 1-page defence of its omission. However, the fact that economists frequently have ignored some demand-variables (packaging, quality, location as well as advertising) is not necessarily to condemn the theory from a marketing viewpoint. The theory was designed to answer the questions which economists were interested in, and might well be modified to answer other problems; one example is the ready way in which bandwagon and snob effects can be incorporated into standard economic theory (Leibenstein, 1950).

These deficiencies of the economic theory of consumer demand explain its relative neglect in business marketing. The positive benefits which it offers have been indicated earlier. Two final arguments to justify the relevance of the theory of consumer demand to marketing need stating. The first is that the subject is not dead and static but growing and dynamic: areas in which Green (1971) suggests the theory might develop (the goods-characteristic approach, information problems, external effects in consumption) are ones of direct relevance to marketing. Secondly, consumer demand theory is relevant not only to the problems of day-to-day business marketing decisions, but to the more fundamental problems of welfare which underlie government policy: these will be considered in Section III.

2. Other social sciences and agricultural marketing

(i) Consumer behaviour

(a) *Introduction.* In order to make sensible decisions, the firm needs to be able to predict how consumers will behave under various circumstances. It needs to know who are the customers, what do they really want and what do they think they want, where do they buy the product and how do they use it, and the firm needs a theory to explain how the consumer decides. Similarly, the policy-maker in government – whether he is assessing the performance of firms' marketing activities or making marketing decisions for publicly-produced goods and services – can only do so sensibly if he has some understanding of consumer behaviour. There are also more 'academic' questions about consumer behaviour: What cultural reasons explain differing patterns of consumer behaviour and in particular why are some societies more consumer-oriented than others? What relationships exist between consumer behaviour and behaviour or attitudes outside the consumer field (e.g. attitudes to work)? (Foxall, 1974).

Although consumer behaviour has been intensively studied by economists the phrase generally evokes primarily the contributions of other social sciences – sociology, psychology (especially social psychology) and anthropology – and it is convenient to refer to these jointly as behavioural sciences. Consumer behaviour can be regarded as a multi-disciplinary study falling midway between these 'pure' social sciences and the applied science of marketing (Foxall, 1974).

I assume that most readers are, like me, more familiar with the methods of economics than with those of the behavioural sciences; the object of this section is to give a simple account of those ideas from the behavioural sciences which seem most relevant to marketing, the topic itself and its literature being too extensive to permit detailed review.

(b) *Concepts.* All that can be *observed* about a consumer is that he is subject to some stimulus (either in an experimental or a real setting) and that the stimulus evokes some response; for instance, the stimulus might be the knowledge that a particular good with specified attributes (price, package, location, promotion, etc.) is available, and the response might be that he buys so many units and uses it in a particular way. Between the stimulus and the response lies the 'black box' of what goes on in the consumer's mind; the behavioural sciences present various

alternative hypotheses as to what happens inside the black box. Some of the main concepts commonly used in such theories are as follows:

(1) *Personality*. Personality is variously defined but, following E.K.B.,* it is given here a restricted meaning: it covers motives and response traits. Motives (a closely-related concept is that of drive) can be sub-divided into physiological (e.g. food, survival, sex), social (e.g. love, esteem) and personal (desire to understand, to construct a system of values); an alternative classification is into primary (innate) drives and secondary (learnt) drives. Response traits are characteristic ways of reacting or behaving (e.g. aggression, co-operation). Although neither motives nor response traits can be observed directly, it is plausible and is indeed a matter of common observation that people do explain differences in behaviour between individuals in terms of such hypothetical constructs as these.

Personality is important in marketing in three ways.

First, to a limited extent personality itself may be a variable which can be manipulated. For instance, although primary drives are generally regarded as stable, secondary or learnt drives are, by hypothesis, mutable as Pavlov showed. An attempt to bring about changes involves the whole field of learning theory, and while there is a lack of agreement as to what exactly constitutes learning, there is fairly widespread acceptance of the ideas that the combination of an initial drive and a stimulus (or cue) evoke a response which (perhaps after reinforcement in terms of a reward) may become a learnt drive. Nevertheless, it should not be supposed that such changes are ever achieved easily; 'successful marketing management must be oriented in terms of and not against basic consumer predispositions and need states' (E.K.B.). The role of advertising is of particular interest in this context: one view is that 'while the consumer cannot be taught (by advertising) to do anything he does not want to do . . . the consumer can be taught to want a product toward which he has no original drive' (E.K.B.).

Secondly, without attempting to change personality in any way, an understanding of it can aid marketing mix decisions. One obvious example is again in advertising: if motives need to be aroused by cues, then a knowledge of what constitutes an effective cue will be an aid to advertising. Another, more esoteric example is the Freudian concept of a conflict between innate drives and social norms with the effect of sublimating suppressed drives into acceptable forms of behaviour: this approach emphasises symbolical aspects of marketing mix decisions particularly in product design and advertising. Personality can also be used as a basis for market segmentation (Yankelovich, 1964).†

Thirdly, a knowledge of personality may have value simply as a predictive tool.

(2) *Attitudes*. An attitude is 'an evaluative organisation of concepts, beliefs, habits and motives' (E.K.B.), its significance being that a person becomes programmed, through his attitudes, to react to stimuli in a certain way; as an illustration, in a study of consumers' attitudes to lamb (Baron *et al.*, 1971/72), some of the attitudes which were explored related to the importance of meat in the diet, willingness to experiment and the housewife's

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* E.K.B. is used as shorthand for Engel, Kollat and Blackwell (1968) which reviews hundreds of articles as well as presenting an original model; this book has been drawn on heavily in what follows.

† Social class and demographic characteristics are the most commonly used bases for segmentation, but many others – apart from personality – have been suggested. For a general discussion of segmentation and an article on segmentation and food consumption, see Engel, Fiorillo and Coyley (1972).

confidence in herself when buying meat. As in the case of personality, attitudes are studied with the objective of answering three basic questions. Is it possible to alter attitudes so as to increase the consumer acceptance of a product or service and if so how (e.g. by repetition, by argument etc.)? Is it possible and desirable to alter the marketing mix so as to make it conform more closely with existing attitudes? Will a study of attitudes enhance predictive capabilities?*

Answers to these questions require some means of identifying and describing and ideally of measuring attitudes. Many workers have concentrated on the idea that while ordinary factual information can generally be obtained by asking direct 'objective' questions (how many children? etc.) respondents are often unwilling or even unable to answer questions about attitudes. As a result various projective methods such as sentence completion and picture interpretation are used. The common feature of such methods is that they are presenting the respondent with 'an ambiguous stimulus – one that does not quite make sense in itself – and asking him to make sense of it . . . in so doing he projects part of himself into it' (Haire, 1950); 'he reveals to us something of his perceptual world, his fantasies, his characteristic modes of responding, his frames of reference' (Oppenheim, 1966). One of the best-known examples is the invitation to respondents to describe the sort of housewife who would have prepared a particular shopping list. By using two shopping lists which are identical except that one has instant coffee and the other ground coffee it is possible to form an impression of attitudes to instant coffee (Haire, 1950). Such methods have sometimes produced apparently bizarre hypotheses (e.g. that housewives associate cake-making with producing babies) but the resultant recommendation (that a too-simple cake-mix causes guilt-feelings – hence 'add an egg') was effective (Wentz and Eyrich, 1970). The major limitations of such methods are their time and cost and their subjectiveness.

Even when attitudes can be elicited by relatively straightforward methods, their interpretation and formal measurement involve severe problems (Oppenheim, 1966). The most common approach to objective attitude surveys is first to conduct depth interviews (with individuals or groups) primarily to find out the range of attitudes which exists, secondly, to build up (either from the transcripts of the interviews or from other sources) a set of statements believed to be related to a particular attitude and third to use these statements in a survey to quantify the extent (and possibly the intensity) of the attitude. The main problem is that each attitude-dimension is so complex that no single statement can reflect it: it is necessary to combine a person's response to several relevant statements. A variety of procedures has been proposed of which Likert scales are perhaps best known. Sometimes the investigator himself decides which statements 'go together' to form an attitude but an alternative is to use a statistical procedure such as factor analysis (Baron *et al.*, 1971/72).

(3) *Perception*. The same stimulus may be perceived differently by different people or by the same person at different moments of time; such differences are probably not simply fortuitous but are the result of selective perception. The nature of selective perception may be caused by differences in personality and attitudes or may help to cause such differences. Associated with perception is the idea of cognition – the process by which we make sense of

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* Ferber (1962) discusses the view 'that plans-to-buy . . . is the relevant overt variable for forecasting purposes, and . . . no net additional contribution can be expected from information on expectations or attitudes'. Fishbein (1967) questions the basic assumption that behaviour is related to attitudes.

the things we perceive. One intuitively appealing application of this idea is that a person's cognitive processes require him to seek congruity between his attitudes and his behaviour; where such congruity does not exist, there is said to be cognitive dissonance, and the hypothesis is that, while some degree of cognitive dissonance is acceptable, there is a tolerance limit beyond which either attitudes or behaviour must be changed in order to restore congruity. Advertising again provides an example; its objective may sometimes be to create cognitive dissonance in the expectation of causing a subsequent change in behaviour; the consumer on the other hand may use selective perception as a means of avoiding such dissonance. Another application concerns post-purchase cognitive dissonance: a buyer (particularly of expensive consumer durables) may seek confirmation, *after* buying, that he has made a good buy – thus advertising directed to such consumers, in giving them confirmation, will avoid possible post-purchase cognitive dissonance which might have had deleterious effects both on future sales and customer satisfaction.

(4) *Group influences.* The three concepts just discussed relate to individual consumers but the fact that people who are in close contact for long periods are seen to behave in ways which are to some extent similar, suggests that the group to which a person belongs may also act either as a source of preference or as a means of communication or both. Clearly, a knowledge of the way in which such group influences operate will have similar advantages to those noted in relation to the previous concepts – it will facilitate both successful manipulation and prediction. Amongst applications of such ideas are the diffusion of new food products amongst consumers, so as to reduce the frequently high failure rates (*Financial Times*, 1974) and the diffusion of information (especially that which is socially desirable), e.g. marketing information.

One approach to the study of group influence is to try to classify the different groups to which a person belongs and to see how he is influenced by each one. A possible classification distinguishes four types of group: a culture, a social class, a reference group and a family. Relatively little work appears to have been done on the influence of culture beyond the banality that cultural influences are likely to be strongly resistant to change so that international marketing of a product may require product modification. The social class concept is one which has been widely used, particularly as a basis for segmentation. Social class is conceived of as being related to such variables as income, occupation, possessions, friends, motivations, aspirations, perception, intelligence, but it is not always clear which of them are believed to be the independent variables that help to define social class, and which are the dependent variables that social class helps to predict. A reference group in its broad sense is any group from which an individual derives preferences or information, but in a narrower sense it is a group which is, in size, somewhere between a social class and the family (though it may cut across class or family boundaries). Finally, the family itself has special importance because, in addition to having the sort of influences which other groups have, it is also a decision-making unit. The roles of the various members of the family in the decision-making process (e.g. influences, deciders, buyers and users) are of obvious importance to all aspects of the marketing mix.

This classification of groups is one fruitful source of ideas on group influences. Another source of ideas is to examine the diffusion process itself. It has been suggested, for instance, (Rogers, 1962) that the willingness to innovate may have a normal distribution and that people can be

classified into five groups according to their position in the distribution: innovators, early adopters, early majority, late majority, laggards. This raises such questions as: What are the states of mind through which an individual passes before he adopts an innovation? To what extent are innovators influencers? How does knowledge of an innovation spread? Can its spread be influenced? Much work in this field has been done by agricultural economists and has concerned the diffusion of innovations amongst farmers (Jones, 1965), but the ideas have wider application. One idea for which support has been found is the two-step flow hypothesis that ideas spread in the first instance from the mass media to opinion leaders and then from the opinion-leaders to other parts of the population. Another – to some extent conflicting – hypothesis is that in the early stages of diffusion, personal contact is necessary but that in the later stages the mass media can be used. Studies of how information spreads have tended to refute the belief that higher social classes act as opinion leaders and that there is a trickle-down effect; communication tends to be within groups rather than between them. Hypotheses relating to the question who are the innovators are usually framed in terms of supposed correlates of innovativeness (e.g. Pizam, 1972/73). Similar studies have been made of adopters (Jones, 1965).

(c) *Models.* If the concepts outlined above have been presented in a fragmentary way, it is probably no more fragmentary than the way in which they developed. Kotler (1965) describes five distinct models of consumer behaviour. These models, each calling on some of the concepts referred to in previous sections are: the Marshallian economic model with its emphasis on prices and incomes as determinants of demand; the Pavlovian model, emphasising learning processes, for instance in the formation of brand habits; the Freudian model, with its account of symbolic motives in buying; the Veblen model, which draws attention to the importance of social influences (e.g. snob effects); and the Hobbesian organisational-factors model which recognises that decision-makers acting on behalf of organisations may be activated partly by personal motives but partly by group or organisational motives.

These may perhaps be thought of as partial models, each having particular relevance to particular circumstances but all of them capable of being reconciled in terms of a more general model. Several authors have succeeded in synthesising ideas from the earlier approaches, these newer contributions having earned the name decision-process models since they recognise that consumer buying decisions are not simply (or at any rate not always) instantaneous acts but are processes taking place over a period of time. There appears to be no generally accepted terminology for the processes involved, but one account (E.K.B.) distinguishes: problem recognition; search for information; evaluation of alternatives; buying; post-purchase use and evaluation. At each of these stages, the consumer may have numerous alternatives, and the seller needs to know how he chooses and how he is influenced (e.g. What circumstances make him aware that he has a problem? Does he seek information from published sources, friends, relatives? How does he evaluate products?). The concepts outlined earlier play a part at each stage, the directions of likely influence being conveniently represented in terms of flow diagrams. There is almost no limit to the number of possible models of this kind. Among the better known ones are those of Howard (1963), Nicosia (1966) and E.K.B.

Such models are intuitively appealing and, at their least, present a suggestive source of ideas both for practical marketing and for research. The problem is one of empirical testing: unlike an economic model which consists of hypothetical relationships between variables which are for the most part readily observable,

these models represent relationships between variables many of which are artificial constructs. Validation of such models requires either that we measure the observable inputs and outputs of the black box, using the constructs only as a means of predicting relationships, the best model being the one which produces the most accurate prediction or that we devise measures of the constructs (accepting the limitation then that, for instance, an attitude is that which is measured by an attitude test) and try to establish the nature and significance of each stage in the model. So far, neither approach has been fully used as a means of testing the synthesised models.

In addition to these 'explanatory' models, behavioural scientists have, like economists, developed 'extrapolative' models in which the value of a variable is predicted from its own past values. Such models (reviewed in E.K.B.) have been found particularly useful in connection with diffusion, and with brand loyalty, and they have the advantage of being readily quantifiable (see E.K.B., Kotler, 1968; Day and Parsons, 1971).

(*ii*) *Behaviour of institutions* Behavioural studies in marketing need not be concerned only with the consumer, it is also important to be able to predict the behaviour of governments, private firms and perhaps other institutions such as marketing boards, co-operatives, etc. The contribution of economics to predicting how firms' decisions are reached was outlined in Section II 1 but decision-making of institutions is – like decision-making of consumers – likely to be better understood if we enquire more deeply into decision-processes rather than rely on examining the implications of rather simple economic objectives. In the case of institutions, an understanding of such processes involves not only psychology and sociology but also politics (e.g. decision-making by committee). The application of the behavioural sciences to firms would have precisely the same sort of value in relation to industrial marketing as a knowledge of consumer behaviour has in relation to the marketing of consumer products.

In relation to farmers, two sorts of application are obvious. First, most farm produce is sold, in the first instance, not to final consumers but to 'institutions' and farmers might benefit from a knowledge of how such institutions make their decisions. Secondly, farmers themselves are the subject of much marketing effort and they can be regarded as institutions with a decision-making problem which can be understood partly in terms of economics but partly in terms of the behavioural sciences; it may be, for instance, that self-styled hard-headed people who tell us that farmers will only join co-ops if these offer economic benefits are closing their minds to the obvious fact that – like consumers – some farmers are naturally co-operative, some naturally aggressive, some are strong on 'loyalty', others less strong. Those who wish to 'sell' co-operation (or, indeed, fertilisers) to farmers should not ignore these differences. While a good deal of literature exists on such subjects it has not been incorporated into a marketing framework in the way that the study of consumer behaviour has. The problem of firms' objectives has been widely discussed (e.g. Galbraith, 1967; Baumol, 1965; Gasson, 1973); behavioural theories of the firm have been proposed (Cyert and March, 1963); some work has been done, chiefly in the U.S., on, for instance, farm attitudes to co-operation (Copp, 1964); a study of British Marketing Boards from the viewpoint of a political scientist has recently been published (Giddings, 1974); and no doubt there are many other relevant publications. But there is a real need for synthesising work in this area.

(*iii*) *Conclusions* Section II 2 has provided an account of some of the ideas from the behavioural sciences which appear to be relevant to marketing. Three main strands can be distinguished: first, the various concepts themselves, even without any formalised integration, offer insights into marketing problems; second, the

attempts to develop integrated models of individual behaviour; third, the market models such as those relating to diffusion and brand loyalty. Some possible criticisms of these approaches are: first, the integrated theories have not been subjected to rigorous empirical testing and in any case relate only to the individual; second, some would suggest that, whatever the relevance of behavioural studies in other marketing fields, they have little or no relevance to agricultural marketing;* third, there are many outstanding areas for research, e.g. cultural influences on international consumption patterns (*Observer*, 1975), behavioural studies of institutions. These criticisms reflect the state of development of behavioural studies. The social implications of using such methods will be one of the issues discussed in the next section.

3. Assessing marketing performance

(*i*) *Introduction* The traditional subject matter of 'agricultural marketing' has been the assessing of marketing performance and consequent policy recommendations. This section examines the theoretical background to the formation of criteria for use in such work. The subject is important to managers as well as policy-makers. For managers the legal framework constitutes part of the market environment and they need knowledge of it so that they can exploit all the opportunities which the law offers them; descriptive accounts of agricultural marketing policies are of great value in this respect (Livermore, 1974; Butterwick and Neville-Rolfe, 1971; Delagneau, 1976). Furthermore, it is not enough simply to know the regulations. Businessmen also need to understand the philosophy underlying them. Such an understanding may sometimes help them to influence policy (e.g. through the pressure of bodies such as the N.F.U. or the C.B.I.). But even if policy is determined exogenously as far as businessmen are concerned, it is still true that the greater the businessman's understanding of the government's objectives and principles of action the greater is his chance of accurately predicting changes – as a result decisions can be made under conditions of greater certainty.

(*ii*) *General principles* The problems involved in developing principles for assessing marketing performance and criteria for intervention are not unique to agricultural and food industries. The structure-conduct-performance approach is described in general texts such as Bain (1959), Caves (1967), Scherer (1970), and its applicability in the context of agricultural marketing has been argued by Clodius and Mueller (1961), Moore and Walsh (1966), Farris (1964), Metcalf (1969) and others. In practice, rather few studies in Britain have formally used structure-conduct-performance analysis though it is implicit in them (e.g. Verdon Smith, 1964); in the U.S. the formal methodology is normal (e.g. Reports of the National Commission on Food Marketing, 1966).

It is not practicable to make more than a few comments on the general principles:

(1) Goals. It is only possible to develop criteria for structure, conduct and performance in the light of some explicit goals for society. For the criteria to be of use, the goals must command general acceptance. Since it is mainly economists rather than other social scientists who have worked in this area,

* 'In the final analysis, the influencing of buyer behaviour is the primary task of marketing, except in those few cases such as agriculture, where the firm is a member of a purely competitive industry' (Wentz and Eyrich, 1970). This ignores the facts: that food (as distinct from agricultural produce) is one of the commodities for which many behavioural studies have been made; that physical homogeneity of product is not a reason for minimal marketing efforts (e.g. detergents); that advertising and other forms of product differentiation can change a market structure from pure competition to oligopoly; and that behavioural studies have applications to agricultural institutions.

emphasis has been placed heavily on narrowly defined economic goals such as efficient resource allocation, equitable income distribution, growth and full employment (Caves, 1967). It is curious that marketing policy has remained so closely tied to this sort of goal when marketing managers have long recognised that in modern societies the variety of consumers' wants has a richness that goes far beyond such considerations. The view that 'the question of what is a good marketing system cannot be separated from the more fundamental question of what is a good society' (Sorenson, 1964) is one which it is convenient to forget if we wish to make practical recommendations. Thus, economists argue as though they are concerned with 'social benefit' (Sosnick, 1958) despite the fact that they have ignored social and ethical objectives – objectives which often conflict with the economic ones. Such objectives as work satisfaction, maintenance of traditional social and cultural values, the possibly overriding desirability of maximising world agricultural output, or the need to protect national sovereignty against the incursions of multinational companies – these and many other possible objectives would have very considerable implications for agricultural marketing policies.*

(2) Generally, we cannot observe directly whether a particular industry is meeting our goals or not. We have to specify observable forms of structure, conduct and performance which will help in the attainment of the goals.† Welfare economics is one attempt to do this for a limited range of goals. Its most important finding is negative: there are no clear-cut practical rules which can be applied in the real world with the certainty that they will make society 'better off' as judged by the minimal set of value judgements normally made (Little, 1958; Graaf, 1963; Baumol, 1965).

(3) The theory of workable competition provides what appears to be a different approach; in particular it tries to get away from the idea of perfect competition and the static implications so closely associated with welfare economics (Clark, 1940; Nicholls, 1941; Sosnick, 1958 and 1964; Bain, 1959). Closer inspection, however, shows that most of the studies on workable competition concern positive relationships between structure, conduct and performance; on the all-important issue of what the performance dimensions should be, workable competition theory offers little guidance. Indeed, workable competition (unlike perfect competition) is not itself a recognisable structure that can be used as a criterion; it is simply a phrase to describe a state in which other criteria have been met. The justification for these other criteria (e.g. firms operating at the minimum point of their average cost curves, no abnormal profits, etc.) still has to be provided. To find such justification we have to go back after all to welfare economics: thus, the criteria which we are forced to use rest – if they rest on anything – on assumptions which welfare economists have shown to be impossible and on beliefs about society's goals which no marketing manager would entertain for a moment.

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* Of course the economist is not unaware of wider considerations, and formally he acknowledges at least some of them. But his method of doing so is to sweep them under a carpet labelled externalities, where they can be conveniently forgotten. This was always unsatisfactory, and it becomes increasingly so because the richer a society becomes, the more attention its members then wish to pay to precisely such issues. As Baumol (1965) says: 'It is even plausible that our consumption desires are so indefinite and flexible that most of the problems dealt with in the discussions of consumers' sovereignty are trivial and unimportant so long as what is done follows consumers' demands in a somewhat rough and ready way'. See also Robinson (1964).

† Ideally, we should also specify a norm for each dimension of performance; Sosnick's attempts to do so (Sosnick, 1958) frequently end up in truisms.

(4) If these conclusions appear negative, there is also something positive to be derived from welfare economics. It makes a dual contribution in that it suggests criteria for market assessment and, having suggested them, demonstrates their weaknesses. Economists have tended to fall into two camps according to which of these contributions they regarded as more impressive, but there seems no reason for not accepting both. Each situation must be considered separately – there are no single solutions to all problems in agricultural marketing. But there will surely be some situations in which resource allocation is quantitatively the major issue. Until recently, little attention was given to quantification in this area of economics, but we now have at least some idea of the size of the possible benefits from improved resource allocation (Comanor and Leibenstein, 1969; Scherer, 1970). There are likely to be many problems in agricultural marketing where the income distribution implications or the growth implications are negligible; the same may sometimes be true of non-economic objectives. The welfare rules and performance criteria derived from them, are ones which can never be applied mechanistically but which may be of value in particular cases. That is the most that can be said of them.

(5) Finally, there is the possibility that welfare economics also offers something else – a methodology. What it attempts to do is to investigate whether a small number of widely held objectives can be shown to imply logically that there are practically applicable conditions (relating to structure conduct and performance) which need to be fulfilled in practice. Is this methodological approach one that could helpfully be applied to other objectives than the ones on which welfare economists have concentrated? I do not believe that the question of goals and performance dimensions, lying on the boundaries of different social sciences, is one which has received sufficient attention. Marketing, with its eclectic foundations, could perhaps make a real contribution here.

(*iii*) *Performance criteria in agricultural marketing* In the context of agricultural marketing, the goal of full employment can probably be ignored, and so perhaps can growth.* Resource allocation, on the other hand, is clearly important, including not only the general question of how much of each product should be produced, but also more specific ones such as range of products (grading, quality, product range), allocation of production activities over time and space and the question of how much resources should be allocated to advertising and sales promotion. Equity is important, with particular reference to the level and stability of farm incomes. Non-economic goals, are also important; to take an example, a proposal to rationalise marketing and slaughtering of fat cattle by encouraging contracting and by reducing the number of slaughterhouses should certainly not ignore such aspects as farmers' possible preference for auction markets (tradition), effect of relocation of slaughterhouses on employment opportunities in rural areas, the possibly greater work satisfaction from combining slaughtering with butchering rather than from making it a large-scale operation and so on. Criteria will be considered here under four headings corresponding to the four main decision areas in marketing.

(1) *Physical distribution*. The problem of physical distribution can be sub-divided into logistics and channel selection.

* So Allen (1959) argues, though he also points out an exception: buffer fund schemes, with important marketing implications, have also been used to finance growth. This exception, however, relates to developing countries, and in that context agricultural marketing and growth are more likely to be closely linked. For a discussion of marketing in this framework, see Whetham (1972). Sorenson (1964) discusses the role of marketing in relation to development in rich as well as poor countries.

One widely used method of assessing the efficiency of logistical arrangements is by evaluating costs, and then making comparisons either over time (Wollen and Turner, 1970) or between areas (Bateman, 1963); unfortunately, there are too many possible reasons for differences for this method to be of much value.

More direct methods of examining logistical problems in economic terms are available: an obvious example is the use of linear programming methods to find optimal shipment patterns; clearly such methods are still concerned exclusively with narrowly defined economic objectives, and even then they ignore second-best problems. Even less conclusive is the use of technical measures of logistical efficiency such as the number of times the product changes hands (e.g. Strauss (1962)).

As far as structural indicators of performance in logistics are concerned, the theory of imperfect competition suggests a sub-optimal number of retail shops (Lewis, 1945) and, by extension, of other intermediate processing or distribution centres. This could be of considerable importance in relation to food and agriculture. Allen's (1959) attempt to refute the argument by empirical evidence on margins seems to be a misunderstanding since the model implies excess capacity, not excess profit.

Turning to channel selection, one criterion frequently used is the provision of market information, and it is on this criterion that auction markets are most widely criticised. This method of selling seems to be the antithesis of the marketing concept since it involves producing 'on spec' rather than for selected market segments. Not only do auction markets fail to indicate to the producer what qualities to produce, they also fail to indicate what quantities to produce since they give no guidance on long term price trends (and indeed may mask such trends by inducing irrelevant fluctuations). The use of the information criterion will be discussed in Section III 3 (iv).

Co-operation provides an example where welfare criteria have been interpreted in several ways. First, the Runciman Committee (1957) – presumably influenced by the supposed virtues of the free price mechanism – argued that no 'artificial' stimulus to co-operation was necessary since, if it offered advantages it would develop naturally.* Second, a theoretical basis for co-operatives in terms of welfare economics follows from recognising the applicability of public goods theory (Olsen, 1965). Third, marginal cost pricing can be used as a criterion, with the result that co-operatives can be shown either to improve or worsen resource allocation (Helmberger, 1964). None of these points takes account of the effect of co-ops on such objectives as income distribution, social values, work satisfaction.† Clearly, there is need for a reassessment of the welfare implications of co-ops.

Finally, cost-benefit analysis – again an offshoot of welfare economics – is a criterion which has been used in relation to channel selection. An example is the location of Covent Garden Market (Le Fevre and Pickering, 1972). We need only note once more the importance of not ignoring the limitations which welfare economists have spelt out.

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* Such arguments are still used. Pickard (1970) argues that the case for co-ops is the help they give commercially to the farmers concerned and that 'in a commercial world what is economically right will survive and indeed develop, and what is economically wrong will go to the wall . . . this process serves the national interest'.

† To mention just one point, again due to Helmberger (1964): unlike a textbook monopoly, a co-operative (provided it does not control production) will find any attempt at sales restriction self-defeating since the consequent increase in prices will only encourage further production; though this may not satisfy the economist since it can lead to over-production, many people might prefer this outcome to a restrictive monopoly.

(2) *Product planning and development*. The issues involved here are the nature and range of products, the level of output and the extent of product development: how does the performance of private firms compare with consumers' requirements?

Almost certainly the most important of these issues in agriculture is the level of output, and the main problem is that, already discussed in relation to channels of distribution, of obtaining information on what is required. The problem is to find a standard by which we can judge the performance of particular institutional arrangements. Assuming that the price mechanism provides a guide to desired output, a possible standard would be that output should follow the pattern indicated by long-term trends in prices but not that indicated by chance fluctuations or fluctuations due to mis-information (e.g. due to weather or to the cobweb). This standard of perfection ignores Sosnick's view that norms should be defined in relation to improvability; for instance, the Wright Report (1968), criticised the Egg Board because price fluctuations had been considerable, but such criticism is meaningless unless we know how much worse they might have been or how much better they could have been. International comparisons or time-series comparisons provide obvious standards; alternatively one might use economic models to predict what the free market fluctuation would have been. Finally, it has to be noted again that economic considerations cannot be isolated from others. There are several means of achieving price stabilisation for farmers. As well as affecting farm output, such methods may affect farm income (e.g. buffer stocks), consumer prices (e.g. food stamp plan or surplus disposal), levels of output of final products (e.g. price discrimination for milk between the various sub-markets). Any criterion which takes account of only some of the effects is worse than useless.

Product range, product quality and product development also involve difficulties. One particular issue of interest in first-hand agricultural marketing is that of compulsory grading which has implications for several objectives. At the consumer end, the question of product range is particularly important. Is the degree of product differentiation which is optimal from the viewpoint of the firm also optimal for society? One approach is to regard more choice as necessarily good, so the extent of quality competition is measured by the number of available products and qualities of product on the market (Sorenson, 1964). But this is a technical criterion, for increased range involves costs – costs for the consumer in choosing between what may be almost indistinguishable alternatives, and costs for the producer since the failure rate amongst new food products is very high; furthermore, product differentiation can be used as a barrier to entry. Another approach, derived from economics, is that firms should operate at the minimum point of their average cost curves and that the degree of product differentiation associated with monopolistic competition is therefore undesirable; on the other hand, it has been pointed out that there are 'all sorts of pleasant little pockets of consumers' surplus lurking under those – after all not so very steeply-sloping – demand curves' (Robertson, 1956).

(3) *Pricing*. Performance criteria for judging price levels include the marginal-cost pricing rule which has been applied, for instance, to the M.M.B. (Nash, 1961) and the various rules used by the Prices and Incomes Board (Fels, 1972). Alternatively pricing practices can be judged indirectly through structure or conduct. The belief, based on structural dimensions, that farmers are likely to be exploited is widely held (e.g. Barker Report, 1972)

but evidence is hard to find – Bain (1959) suggests that concentration ratios need to be very high before they affect profits. If farmers are exploited, it is not clear what is meant. Are we to be concerned about the income distribution effect of exploitation, or resource allocation? The extent of price instability in agriculture has been responsible for important though inconclusive discussions of the consequent welfare implications (Waugh, 1966; Wood, 1965; Parish, 1967).

(4) *Sales promotion*. Sales promotion is one of the most difficult policy areas, involving issues of resource allocation as well as ethical and aesthetic considerations. It is of considerable practical importance in the agricultural/food sphere, since advertising is often high for processed food products while it is generally low for those food products sold in an unprocessed form. The policy issue is whether advertising of processed food products should be limited or whether, on the contrary, the government should facilitate an increase in advertising of raw produce by permitting the setting up of such bodies as the M.L.C. and the M.M.B. which include advertising among their functions. Detailed discussions of advertising with special reference to agriculture are Clement (1963) and a series of articles in the *Journal of Farm Economics* (1959); a useful review of advertising problems with particular reference to Britain is Doyle (1968).

One approach distinguishes 'persuasive' advertising from 'informative' advertising. Robinson (1964) writes: 'It is by no means obvious that goods which carry their own wants with them, through cunning advertisement, are a Good Thing' while Galbraith (1967) has argued that: 'If the individual's wants are urgent they must be original with himself. They cannot be urgent if they must be contrived for him'. Briefly, persuasive advertising is bad, informative advertising is good, and the practical problem is to develop a criterion for distinguishing them. Bain (1959) suggested an advertising–sales ratio of 5 per cent as a maximum on the grounds that anything more than this was likely to be increasingly persuasive rather than informative in tone. This sounds too arbitrary since conditions are likely to vary from industry to industry, and Needham (1969) argues that no simple rule is possible.

The argument that persuasive advertising is necessarily bad is not universally accepted. One argument relates advertising to the aspiration–income gap (Weckstein, 1962). An increase in advertising may both raise a person's aspirations and (in consequence) his income. If welfare is a function of the gap between aspiration and income, there is presumably an optimal level of advertising which will minimise this gap; whether the advertising is persuasive or informative is irrelevant. This approach requires quantification in order to yield a practical criterion.

The view that informative advertising is necessarily good is also open to objection. It can be argued that there is an optimal amount of information – for consumers as for farmers. Discussions of the economics of information bring together such areas of study as sales promotion, diffusion of information and imperfect knowledge (Lamberton, 1971).

Yet another approach denies the relevance of the persuasive–informative distinction. Mishan (1969) distinguishes instead between partial and impartial advertising, and proposes that all partial information should be banned; in terms of economic objectives this is probably the only logical solution, and its impracticability only exemplifies the impossibility of arriving at acceptable policy recommendations if we insist on wearing economic blinkers.

Instead of approaching the advertising issue through general arguments, it is possible to examine each of the wide range of possible effects of advertising: the effects on production costs and on costs of the media, the intangible effects (e.g. on the press, on tastes, on morals*), the effects on concentration and even on the level of employment. Whether advertising has these effects are positive questions. Whether, if it does affect production costs, cause externalities, etc., we should try to deal with them gives rise to the problems of second best etc. discussed earlier.

Finally, Palda (1969) argues that the power of advertising is overestimated by its critics.† This argument is two-edged; if it does not have any effect, the considerable resources devoted to it are wasted, and this strengthens the argument for banning it altogether.

Advertising has been discussed in some detail because it has been taken as representative of what are often regarded as – and objected to as – marketing activities. As far as criteria are concerned, it is surely not good enough to say (as Sosnick, 1958 does) that 'sales promotion should have the quantity and quality that a responsible consumers' co-operative would choose in order to inform or otherwise benefit customers'. But if we have to be more specific, the alternatives are either, to say that all partial advertising is bad and/or ineffective, and our norm is zero or, to use some arbitrary level such as 5 per cent or to assess in detail the effects of each case. Probably most people would prefer the last approach. Some of the difficulties of doing even this are discussed by Shaffer (1964).

(*iv*) *The role of government in marketing* Two tasks for government in agricultural marketing were identified in Section I: to influence the operation of agricultural markets, and to use marketing engineering in the development and implementation of agricultural policies. The second of these is an almost untouched area for marketers and is one which, with only minor misgivings, can be held to be socially useful.

The first area is the traditional one of intervention, resting as has been argued, on extremely shaky foundations. Although inadequate performance is not a sufficient condition for intervention, in the end the purpose of assessment is to permit improvement through appropriate policies. Two alternative classifications of policy are available: general policies *v.* policies specific to agriculture or to particular sectors within it; policies which control performance dimensions directly *v.* policies which try to influence performance indirectly by controlling structure or conduct. Some examples are shown in the following table.

Among the criteria for choosing between these policies will be the desire for individual freedom which suggests that structural policies will, other things being equal, be preferred to direct control of conduct and performance.

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* For instance, Wills (1974) recognises the efficacy of 'marketing engineering' but emphasises, what laymen have always known but marketers have ignored, that marketing is not entirely a force devoted to the betterment of society by providing consumers with what they want: 'most civilised well-educated citizens of Europe are "against marketing" '; amongst the reasons are that 'marketing engineers deploy envy, jealousy, fornication and adultery in order to sell wherever they are successful, regardless of any attempt at assessing their impact on society. Equally, they employ with monotonous regularity advertising of the utmost banality which is extremely effective *despite* the fact that it desocialises and degrades millions of living-rooms across Europe'.

† Similarly E.K.B.: 'To say that consumers are controlled by marketers is naïve, unless one means that marketers induce consumers to buy their products by producing what they want and telling them about it. In reality, it is the marketer who is controlled by the adaptive, satisfaction-seeking behaviour of the consumer'. It is not clear whether this is meant to be a testable hypothesis.

Table

POLICIES	STRUCTURE	CONDUCT	PERFORMANCE
General	Monopoly legislation Industrial reorganisation commission	Restrictive practices legislation Resale price maintenance	Price control Control of advertising-ratio
Agricultural and food	Marketing Boards Co-ops Nationalisation (e.g. of retail milk distribution) Improved market knowledge Farm amalgamation Government sponsored facilities (e.g. futures markets, terminal facilities) Encourage countervailing power Foster social heterogeneity (e.g. co-ops)		Margin control for liquid milk Taxes and subsidies (co-ops etc.) Food hygiene regulations Opening times of shops Guaranteed prices Price discrimination/surplus disposal Buffer stocks/buffer funds Output controls Import controls Compulsory grading Compulsory rationalisation

4. Conclusions

I referred earlier to the view that the behavioural sciences have more to contribute to marketing than has economics. Section II suggests the following conclusions.

First, that consumer behaviour is not the only area of concern to the marketing man and in other areas the marketing man will gain more from a knowledge of economics than from the behavioural sciences. Section II 1 has indicated many such areas.

Second, within the field of consumer behaviour it seems indisputable that if the marketing man had to choose between the behavioural sciences and economics he would gain more from a knowledge of the former; but the two approaches need not be mutually exclusive, and indeed their contributions are complementary rather than competitive.

Thirdly, when problems of market assessment are under consideration, it is the economist who has in the past contributed most, but in doing so he has only demonstrated the inadequacy of economics to deal alone with social objectives. There is a real need for work in this area by other social scientists.

III. Selected applications

Agricultural marketing studies can be classified by *function* (e.g. wholesaling, transport), by *institution* (co-operatives, markets), by *commodity*, by *marketing decision area* and by *application* (positive, management or policy). These classifications overlap giving a complicated matrix of possible areas of study to which the theoretical ideas outlined in Section II can be applied. It is practicable here to deal with only a selection. Sub-section 1 is a fairly detailed review of the marketing of a particular *commodity*, meat and livestock, selected as the most important agricultural product in Britain and one for which there is a large quantity of diffuse material. Sub-section 2 reviews some of the issues relating to certain marketing *institutions* – a hoary but still important topic. Sub-section 3 deals briefly with a miscellany of other topics.

1. Meat and livestock

The marketing of meat and livestock has probably attracted more attention than that of any other commodity, not only from governments, but also from academic economists, farmers and – even – consumers. This partly reflects its quantitative importance both in production and in consumption, but also reflects fundamental problems associated with the commodity – the length of the distribution chain, the heterogeneous and composite nature of the commodity, the closeness of substitutes in demand and the variety of systems in production. In addition to many *ad hoc* studies, meat and livestock has been the subject of a continuous programme of research by the Department of Agricultural Marketing at Newcastle. The purpose of the Newcastle work – 'to discover what types of meat would be most in demand by consumers in ten years' time, and how this demand might best be met by farmers and those engaged in processing and distribution' – relates most directly to management rather than policy problems. In what follows, management and policy problems will be examined together under the headings product planning, physical distribution, pricing and promotion.

(*i*) *Product planning*

(a) *The physical product*. As noted earlier, agricultural marketing studies have generally taken the product as given in contrast with marketing which starts from the presumption that the product should be adapted or created to meet consumers' needs. One reason for this is perhaps that the biological nature of agricultural production makes it difficult to produce to specification and, in the case of meat, consumers' assumed ignorance about such a complicated product may constitute another reason. The Newcastle studies represent a determined attempt to find out what scope does exist for producing to meet consumer needs. Brayshaw, Carpenter and Phillips (1965), sampled butchers to find out the qualities by which butchers believed that consumers judge meat. Leanness, tenderness and flavour, in that order, were thought to be of prime importance with little value attached to more sophisticated criteria; many butchers believed that they could prepare joints with the desired characteristics from a wide range of carcases, implying that producing to specification was not important at the farm level. Subsequently Brayshaw, Carpenter and Perkins (1967) examined the same problem from the consumer viewpoint using product tests. The results, though not precisely the same, had the same general implications. Tenderness, leanness and flavour were the desired characteristics in order of importance; 'since some steaks fitting this specification were obtained for the tests from carcases derived from beasts of varying ages and which had been hung for differing periods, it is impossible to say much at this stage about related systems of production' though there is one particular type of beast which is 'almost certain to yield the type of steak most acceptable to the mass market'. Other studies on the same subject included an examination of systems of management in relation to carcase quality (Prescott and Hinks, 1968) and a study to find what price premium was obtainable from consumers for the preferred types of steak (Carpenter, Hinks and Perkins, 1968).

Two other areas relating to product planning of meat have been examined by Newcastle. One was an investigation of the commercial prospects for selling frozen English August lambs in the winter in competition with New Zealand lambs (Baron, Brayshaw and Hinks, 1968). The other was an examination of the consumer acceptability of yellow-skinned chickens – the importance being that some feedingstuffs have a yellowing effect (Cumberland, 1973).

These studies have shown that product planning ideas of the kind applied in the marketing of non-agricultural products can be applied equally well to a product such as meat, and that the results have management implications for farmers,

wholesalers and retailers. For farmers, in particular, the implications and limitations have been summarised by Carpenter (1972):

> 'The problem for the farmer in drawing lessons from this research is that he is unlikely to have much control over what happens at the retail level. Worse, the most important quality characteristic, tenderness, can be obtained by suitable conditioning of the meat almost irrespective of the type of animal from which it comes. In terms of producing for the market, however, it does clearly indicate an animal young enough to ensure tender meat and with as little external and intra-muscular fat as possible. Clear knowledge of this is one step in the direction of obtaining some premium for producing it, but actually to obtain the premiums, new marketing methods, probably beyond the capability of most individual farmers, would be required. A more immediately applicable conclusion stems from the recognition that the consumer is not very precisely discriminating. This should suggest that the emphasis of a farmer's marketing effort should be on efficient production and yield of saleable meat, while keeping in mind the type of animal for which the market should pay a premium. . . . An individual farmer can only choose what seems the best market channel, he cannot hope to organise or pay for promotion, distribution, pricing and so on, and it is the total impact of all these marketing elements which affects sales.'

In other words, the farmer should continue, roughly speaking, to do what he always has done unless and until 'new marketing methods' (essentially the selling of a branded, standardised product) can be applied. This is a large-scale operation which could be undertaken either by a farmers' co-operative or by a 'private' firm.

So much for management implications; what about the policy issues? Ideally, the price mechanism should offer incentives to ensure that products are produced in the qualities which consumers require; the fact that no one has found it profitable to sell meat in branded, standardised packs nor even, as Carpenter says, to offer premia to farmers for producing the preferred qualities is at least circumstantial evidence that the benefits may be outweighed by costs. Against this, two points can be made: first, such costs can be reduced if a grading scheme is implemented nationally rather than by individual firms (though whether it should be compulsory involves trade-offs between economic efficiency and freedom); secondly, that in a dynamic economy, profit opportunities are not always exploited immediately so policy should facilitate such exploitation.

(b) *Level and timing of output*. The problem of determining the right level and timing of output is one aspect of product planning which has received great attention in relation to most agricultural commodities. Essentially the problem is this: assuming that the price mechanism is an indicator of the general level of output required, how can farmers make production plans when prices are affected by such variables as the cobweb, the weather, variations in government policy, the unknown production and selling plans of other farmers and so on?

Price forecasting presents one possible line of approach for the businessman or farmer. It involves both forecasting free market prices and forecasting the likelihood and effect of alternative government policies. Policy forecasting has already been discussed. Forecasting the effect of entry to the E.E.C. on British farm prices provides one obvious example, studies in this area being too numerous to list but of obvious relevance to market forecasting. As far as forecasting the free market is concerned, again, meat and livestock have probably attracted more attention than other agricultural commodities, though the problem of forecasting short-term (week-to-week) fluctuation in market prices seems to have been ignored, despite its importance for farmers. Longer term forecasting has generally been approached through supply and demand studies.

On the demand side, there have been several pieces of research: Raeburn (1957) produced one of the first post-decontrol studies, covering fat cattle, fat lamb, fat pigs and bacon at market level; Dixon (1965) used more formal procedures to deal with interrelationships between the demands for different types of stock; Colley (1966) again dealt with the same commodities with the exception of sheep while Stent (1967) examined the demand for beef alone but did so in a way which distinguished supplies of beef and competitive products by source so as to test the hypothesis that low beef prices had been caused by a change in imported rather than in domestic supplies. More recently still, Colman and Miah (1973) covered all the main types of meat and the main sources of supply and recognised the interdependence between the demands for each of these types of meat. Work on regional demand (with implications for pricing) has been done by Matheson and Philpott (1967).*

Demand functions on their own are of limited value unless expected supplies are known. Although it seems far removed from marketing, supply forecasting is thus an essential part of price forecasting in agriculture. Supply forecasting methods have been reviewed by Cowling and Gardner (1963) and several of the methods they outline have been applied to meat and livestock. Jones (1965) examined relationships between prices and livestock numbers, Gardner and Walker (1972) examined prices and cow numbers, Hill (1971) looked at prices and heifers in-calf for the dairy herd, Robertson (1971) at prices and the fowl population; a multi-equation model for pig supply in Northern Ireland has been developed by McClements (1969) and for cattle and sheep by McFarqhar and Evans (1971). Linear programming methods have been applied to a range of commodities which include livestock by Davey and Weightman (1971). The M.L.C. publish regular slaughtering forecasts based on a modified input–output approach. Interrelationships between supply and demand, via cobweb type mechanics, have been explored by Allen (1959).

The amount of work done in this area is considerable, and that outlined is indicative of the kind of studies made for other food products. Although there may be other justification for such work, in the present context we need to examine of how much practical use it is in marketing. There are several problems (Hunt, 1971).

First, and most important is the *ad hoc* nature of such studies and the apparent lack of controversy and of day-to-day testing of results. The developments outlined represent essentially an increasing sophistication of methodology amongst agricultural economists and the consequent methodological interests of particular researchers at particular moments of time. They do not represent a determined attempt to test known methods to the limit with continuing studies of particular commodities, with regular checking and up-dating so as to get results in which practitioners can have the greatest possible degree of confidence. There is an air of academic detachment in which the objective is to parade a technically satisfactory set of results and then move on to another topic. Allen (1974) – published at the time of writing – does emphasise results rather than methodology and this is to be the first of a series on meat. The questions he asks are ones which need answers in practical day-to-day marketing; in answering them, alternative forecasting techniques are used and criticised, descriptive information is provided where appropriate, and the overall conclusions are presented in a non-technical way. This is a long overdue development, and comparable work is very much

* Their examination of regional variations in the demand for British meat has implications not just for demand forecasting but also for market decision-making, e.g. regional allocation of advertising expenditures or of effort devoted to improving logistical arrangements. Unlike most studies in this area by British academics, this New Zealand work is oriented towards producing information which is of practical use in marketing.

needed for other commodities. The objective should be to construct marketing information systems for agricultural products.

A second problem is that of communication with the potential users of such information. What sorts of information should be communicated to farmers (processed data in the form of predictions or raw factual data)? If only raw data are communicated, should some educational process be engaged in, so as to help farmers use it (e.g. non-technical interpretations in such papers as the *Farmers' Weekly*)? What method of communication should be used (M.L.C. Bulletins, *Farmers' Weekly*, two-step flow, etc.)? Who should be responsible for forecasting and/or dissemination? While official organisations such as the M.L.C. are efficient collators of historic data, they may not be sufficiently entrepreneurial in spirit to publish forecasts of a kind which are of much practical use. When real decisions are being taken, a forecast of some kind has got to be made by someone, and it is of limited value to read that 'the market should strengthen somewhat' or 'prices are likely to continue to be firm' (M.L.C., Market Survey, Spring 1974); the best and perhaps the only compromise between the clarity which decision-makers want and the uncertainty in which forecasters are shrouded is an estimate with a confidence limit, even if farmers have to be educated in how to use it. Whether the M.L.C., the Government, a Marketing Board or a co-op is the most effective institution to disseminate information is one which does not seem to have been investigated.

Finally, there is the question of the extent to which institutional changes could circumvent the need for disseminating price forecasts. Government guaranteed prices are one solution which, in this respect, have important marketing implications. Futures markets are another alternative. Yet another possibility in the longer term is a much greater use of contracting which, though it would not eliminate supply fluctuations due to the weather, could at least cut out cobweb problems. Still another is the management of markets (either as in the E.E.C. or through surplus-removing Marketing Boards). The costs and benefits of these alternatives have not received serious discussion.

(c) *Product development*. The development of new uses for farm products is discussed in general terms by Breimyer (1973) but I am not aware of any studies related to meat and livestock in Britain.

An alternative form of 'new product development' for farmers is forward integration into meat distribution. Obviously, large financial and technical resources are necessary before this can be achieved, and such resources seem only likely to be available to farmers through voluntary or compulsory groups. Studies of the profitability of such developments, if they are undertaken at all, are seldom published. The most readily available source of management studies in this area is the C.C.A.H.C. Amongst some 200 studies sponsored by the C.C.A.H.C., there is a heavy preponderance in favour of horticultural developments – a minor part of agriculture and one where co-operation was taking place anyhow; but there are a few relating to such issues as the slaughtering and marketing of carcases.

(*ii*) *Physical distribution* For a farmer, the only decision relating to physical distribution which can normally be made is the method of first-hand sale, and the main considerations are probably price, convenience, and information provided. There is some evidence that, where the opportunity exists, private sales to butchers or to other farmers meet these conditions best, but for most farmers such opportunities do not exist. For the majority, the choice between the remaining channels will depend both on the farmer's objectives and on the ability of the alternative outlets in his particular area to meet these objectives: the persistence of all these methods of sale side by side suggests that none has, for all farmers, a clearly marked advantage over the others. This may not continue to be the case, however:

the auction method of sale is generally used for heterogeneous commodities (such as houses and pictures as well as stock), and once an acceptable grading system came into being, auctions would probably decline in attractiveness for the affected classes of stock; furthermore, none of the methods of sale at present offers contracts (in the sense defined by Barker (1972)) and none of them is an entirely satisfactory channel of communication, but this too may be affected by acceptable grading schemes.

Studies relating to management problems at subsequent stages in the chain are sparse.

From the policy viewpoint, a good deal of attention has been paid to logistical problems and to possible supernormal profits at various stages in the marketing chain. The physical nature of meat and livestock make it unusually difficult to determine distributive channels and margins, and the mere collection of relevant data has probably attracted more effort than has its analysis.

(1) The structure of the various channels of distribution for meat is not readily available. Information on numbers of butchers' shops has, of course, long been provided by the Census of Distribution, but there is no regular published data on the structure of auction markets, slaughterhouses or dealers (though this information is collected for administrative purposes). The Verdon Smith Report (1964) provides a basic but dated compendium. Weeks and Brayshaw (1966) describe the ownership, organisation, facilities, etc. at auction markets; Dent and Cowie (1966) provide broadly comparable information for slaughterhouses. Even when the structure of various parts of the distribution network is known, flows of cattle and stock through each part of it are difficult to establish. A study for Wales (Bateman *et al.*, 1971) used farm survey methods both to estimate the importance of different outlets for farmers and to trace geographical movements of stock. At the consumption end, ignorance is no less. Some of the Newcastle work (Carpenter, Lesser and Prescott, 1972 on how consumers choose their butchers, Rennie, 1968 on methods of retail beef procurement) has shed light on distribution through traditional butchers, but there is no published work on, for instance, the deep freeze demand for meat and little on such important topics as catering demand or export demand.

(2) Costs of operation need to be known in order to permit informed managerial decisions, to establish optimal logistical systems against which actual systems can be compared or simply to predict trends. Some work has been done on slaughterhouses (Herbert Committee, 1955, Cowie and Warren, 1968), but little on other stages in the chain: Lesser (1969) estimated economies of scale in packing of prepacked meat with special reference to the question of instore *v.* central packing; Bateman *et al.* (1971) applied the survivor technique to auction markets.

(3) The estimation of margins at various stages is a useful preliminary exercise in examining physical distribution systems, and may be more than this if, for instance, it is possible to establish the existence of supernormal profits. Houston (1962) and the Verdon Smith Committee (1964) examined alternative methods of estimation and presented some results and Palmer (1975) provides more up-to-date estimates. All that can be said is that the evidence, though inconclusive, does not demonstrate consistently supernormal profits at any stage; second, that for meat, despite the range of error, retail margins are very large relative to those at other stages, and it is in retailing, therefore, that the most scope for saving might exist, e.g. by the displacement of the conventional butcher by supermarkets (McClelland, 1962) or by deep freezers. The reasons for, and welfare implications of,

short term fluctuations in retail margins have been examined by McClements (1972).

(4) Logistical efficiency of livestock and meat distribution has been examined by the Herbert Committee (1955), by Smith (1964), by Kerr and Bateman (1972) amongst others. Though the costs of transport and slaughtering are small relative to retailing costs, there is evidence to suggest that costs could be reduced by a more rational system.

This brief and incomplete review of work on meat distribution shows above all that we know remarkably little even about the existing situation, let alone the future one to which present plans should be adapted.

(*iii*) *Pricing* From the farm management viewpoint, pricing is not a decision-variable; the farmer can only choose the outlet offering the best terms. Pricing might become a decision-variable as a result of institutional changes (voluntary or compulsory groups) but the nature of the relationship between institutional forms and the level and stability of prices has not been explored for meat and livestock in Britain.

From the policy viewpoint, the level and stability of prices are important in relation to resource allocation (total output, qualities, temporal allocation of supplies and spatial allocation of supplies) and in relation to income distribution (between individuals and over time).

The problem of temporal fluctuations has already been discussed. Spatial price variations have not attracted a great deal of attention, probably because of paucity of reliable and comparable data. One study (Thomas and Bateman, 1973) found price differences often exceeded transport costs between some markets in a consistent and foreseeable way. The reason was believed to be ignorance rather than structural problems of markets, the implication being that the solution lay in the hands of farmers without the need for intervention.

(*iv*) *Promotion and market development* From the management viewpoint, sales promotion can be considered in terms of generic promotion or of promotion of particular brands. From either approach, promotion is profitable provided its marginal revenue product exceeds its marginal cost. The problem is to establish (for advertising particularly) what the marginal revenue product is – a difficult thing to do given that there are lagged effects, there are several interrelationships including reactions of other firms and some of the variables are difficult to measure. As a result, effectiveness is often measured in terms of intermediate goals.

Little published work is available on generic advertising in Britain either for meat or other products – the main exception is eggs (Ball, 1967). This is surprising considering the importance of such advertising (particularly for milk) and considering the fact that some American studies indicate that worthwhile results are possible (e.g. Nerlove and Waugh (1961)). As far as meat is concerned, reference has already been made to the Newcastle study of attitudes to lamb with its obvious implications for advertising (Baron *et al.*, 1971); in addition, the M.L.C. have undertaken some experimental advertising the results of which were assessed by Phelan (1973).

Most advertising relates to branded products and it is this which has attracted most attention. The effectiveness of brand advertising has been the subject of many studies. Samuels (1971) provides a typical example of the application of standard techniques to such commodities as processed foods. As far as meat is concerned, developments are inhibited by the fact that branding requires a specified product and for reasons already discussed this is not easily attained for meat. It is probably easier for pork than for other meats, and Hughes, Lesser and

Renard (1974) have examined the possibilities of branding for this commodity. The study suggested that branding did increase sales, a result which could obviously benefit farmers whether the branding was by a farm co-operative or by a conventional wholesaler.

From the policy viewpoint, advertising of unprocessed agricultural products, even milk and dairy produce, is at a very low level compared with Bain's standard; whereas, in general, the object of government policy tends to be to curb advertising, in agriculture, policy has encouraged it through the setting up of such bodies as Marketing Boards and the M.L.C. This raises the question of why advertising is low in agriculture or, more generally, what are the factors which influence the level of advertising. There have been many studies which have tried to link advertising levels with structural dimensions (e.g. Reekie, 1975). In agriculture, the suggested reasons (Sorenson, 1964) are: small size of farms; limited economies of scale in production; farmers are primarily engaged in industrial marketing rather than consumer marketing; group advertising has organisational problems particularly in relation to supply (supply may expand too much, or may not be available or may not be available in the right quantities). The desirability of advertising has already been discussed, but many people might consider that advertising is beneficial in so far as it succeeds in establishing consistent qualities in the consumers' mind and thus reduces problems of choice. For meat, advertising in conjunction with branding could have this effect, but the generic advertising of meat, like that of milk, is more difficult to justify.

(*v*) *Conclusions* Meat and livestock is the most important farm commodity in Britain, and it is one where conventional economic performance criteria are manifestly not being met. To a considerable extent, however, the problems appear to be inherent in the nature of the product, and to a further large extent they are inherent in the nature of an atomistic marketing structure. Such a structure gives farmers consistently faulty information, and gives them little incentive or ability, as individuals, to make any changes.

The panaceas offered include contract farming, Marketing Boards, grading schemes, better information, more advertising and so on. This review suggests:

(1) There is relatively little that individual farmers can do to improve their marketing of meat and livestock.

(2) A necessary, though not perhaps a sufficient condition for improvement, is a satisfactory grading system. This would permit growth of contract buying, price incentives for different qualities, and ultimately branding and standardisation of retail cuts. Although this would not solve all the problems, it could solve many of them, including for instance the serious cobweb situation.

(3) The price mechanism is not a perfect instrument, and it does not necessarily follow that grading will bring about these improvements. The only way to be reasonably sure of that is to set up some compulsory rationalisation machinery, e.g. through the M.L.C.'s compulsory powers or a Meat Marketing Board with carefully defined powers. The relative advantages of those procedures will be discussed in the next section; whether either of them is justified depends on the evaluation of the freedom which would be lost by any compulsory scheme against the economic advantages of rationalisation; the advantages need more quantification to facilitate a decision.

(4) Farm co-operation will not alone secure grading or rationalisation or anything else. What it can achieve will be discussed in the next section.

(5) Among the important areas for future research are: the development of market information systems for farmers; the building of models of distribution systems (e.g. how many butchers in 20 years time?); the effectiveness of generic advertising of agricultural produce in Britain.

2. Co-operatives, Marketing Boards and 'Commodity Commissions'

(*i*) *The context of Marketing Institutions* As an illustration of research needed on marketing *institutions*, this section examines co-operatives, Marketing Boards and 'Commodity Commissions' – all of them institutions which have particular though not exclusive relevance to first-hand agricultural marketing.

From the *management* viewpoint, these institutions mainly constitute an extension to the farmers' problems of channel selection with the complication that it is no longer simply a question of selecting from amongst a given range of channels for there is also the possibility of creating new ones. If co-operatives and Marketing Boards do not already exist, farmers have to decide in what circumstances it would be desirable and practicable to create them.

The *policy* issues are much more complex and interesting and have therefore attracted more attention. Sometimes these institutions are contrasted with one another as though a choice had to be made between them. It is worth emphasising, therefore, first, that these institutions are not necessarily mutually exclusive and secondly, that they are not the only policies available: the institutions under consideration constitute just one means of altering structure which is itself only one means of influencing performance (see Section II 4).

Where policy-makers consider that such institutions *may* constitute a practicable means of improving performance they have the following main options:

(a) *Non-intervention*, i.e. no controls, tax regulations, etc., except those which affect all industries alike; subject to these general restraints, marketing institutions may be left to develop or not in response to market forces. Such a policy obviously rests on the existence of some permissive legislation, i.e. legislation giving individuals or groups of individuals the right to set up particular institutions but not requiring them to do so, e.g. the legislation relating to companies and co-operatives.

(b) *Specific permissive legislation*, i.e. permissive legislation relating to particular industries or to particular institutions. Clearly, an infinite range of such legislation is possible, but one illustration is the Agricultural Marketing Acts which, in Britain, make possible the setting up of Marketing Boards – effectively compulsory co-operatives – given a specified procedure for obtaining the approval of both government and producers. In practice these Boards are all farmer organisations though the Acts are not quite so restrictive. Powers vary from Board to Board but may include advice, supervision, provision of services and incentives, partial trading powers or exclusive trading powers. They may operate at any level from farmer to consumer, but in practice have been particularly potent at the first-hand marketing level.

(c) *Fiscal policies*, i.e. special incentives or disincentives to particular systems of marketing but without physical controls. The most obvious example is the encouragement given to co-operative marketing through the C.C.A.H.C.

(d) *Mandatory physical controls*, i.e. those which *require* the setting up of particular institutions. Again, there are innumerable possibilities. Amongst those which have actually been created, besides commodity commissions, are authorities defined on a non-commodity basis (e.g. the Covent Garden Market Authority), and the boards of the nationalised industries. The latter are of some interest since nationalisation has been proposed from time to time for retail milk distribution and might also be appropriate for some other sectors of processing

and distribution of agricultural produce; though nationalisation is sometimes thought of as direct government control to elicit the desired conduct and performance, it is probably a more accurate description of the facts to think of it as the setting up an institution which – like a Marketing Board or Commission – may or may not in practice act in precisely the way desired. In the present context it is, however, Commodity Commissions which are of most direct interest. Examples are the M.L.C. the H.G.C.A., the Eggs Authority and the Sugar Board. Unlike Marketing Boards, for which a single piece of legislation covers all Boards, these 'Commodity Commissions' are a rag-bag of organisations each set up individually for a particular commodity and with varying powers but with one common feature which distinguishes them from Marketing Boards, viz., they are independent in the sense that they do not represent exclusively any one section of the industry concerned.

Given the range of policies which has been indicated, it is clearly not possible to make a complete assessment in the sense of comparing all these alternatives. The objective is the more limited one of seeing how far the literature has attempted to predict the effect on performance of the institutions under consideration, and how far it has provided empirical support for such predictions.

(*ii*) *Co-operatives* Co-operatives are not clearly defined. Sometimes they are regarded as organisations registered under the Industrial and Provident Society Acts but on other occasions co-operative is widened to include organisations registered under the Companies Act if their form of organisation has at least some of the major characteristics of a co-operative. A sub-division of co-operatives in this wider sense is that of groups, a group being 'a number of farmers who join together to market their produce and accept the view that their production should be orientated to meeting the requirements of the market and are prepared to accept reasonable restrictions on individual action to fulfil this objective' (Dodds, 1965).

Section II referred at various points to some of the results which could be expected to flow from the setting up of marketing co-operatives. Briefly:

(a) *Co-operation and farm incomes.* A long list of supposed advantages of co-operation is often quoted. For many of these (e.g. cost reductions, economies of scale), co-operation appears to be a *possible* means of securing the benefits rather than a *prerequisite*. Co-operation probably is a prerequisite in two situations: first, if there are benefits which countervailing power can bring to farmers; second, if there are economies of vertical integration which individual farmers are not able to exploit and there are reasons for preferring forward integration by farmers to backward integration by processors. An extension of this question is to identify conditions in which co-operatives themselves need to co-operate into second-tier co-operatives, an issue discussed by Kirk and Ellis (1969).

(b) *Co-operation and work satisfaction.* It is sometimes argued – and not just in an agricultural context – that people prefer to work for or contribute towards their 'own' organisation rather than to sell their labour or their produce to another organisation.

(c) *Co-operation, contracting and product planning.* Co-operation and contracting are often considered together though neither is a necessary or sufficient condition for the other. A co-operative auction may well have advantages though it has nothing to do with contracting, while individual contracting may offer advantages that have nothing to do with co-operation. In principle, there are four situations whose effects we need to predict – contracting and non-contracting, either with or without co-operation. The benefits of contracting have been examined by Allen (1972), Pickard (1970), Barker (1972) and Metcalf (1969).

Allen classified the methods of sale facing the farmer as traditional competitive markets, contracting and vertical integration, and concluded that 'widespread contracting, or failing that complete vertical integration is necessary if the full opportunities of modern technology are to be realised'. Though he ignores the fact that 'less progressive' farmers may have objectives which do not place prime emphasis on exploiting modern technology, contracting undoubtedly does offer advantages and (though this is not its only attraction) it is likely to appeal particularly to those imbued with the marketing concept. Pickard emphasises this aspect; 'the trend towards increasing specificity of demand is irreversible and accelerating. It . . . leads to the need to develop channels of supply along which produce of *known* characteristics passes systematically rather than what we have at present, namely a distribution network which enables produce to *any* given characteristic to find a home somewhere'.

Given these arguments for contracting, what are the reasons for co-operative rather than individual contracts? The Barker Report establishes the link in terms of the need for countervailing power if the contracts are to be fair, an argument which was discussed in Section II. Pickard uses the rather surprising argument that individual contracting is inferior to co-operative contracting in that 'it fails to provide the context in which on-the-farm co-operation can develop – and it is, I believe, in this latter area that the major savings in production costs can be made and the major improvements in efficiency brought about'; marketing co-ops are also seen as a means of persuading farmers to adjust rather than resist change. Metcalf suggest that co-operatives may have greater discipline over their members than would be possible via a direct contract and also refers to the possibility that co-operation may permit forward vertical integration by processors.

(d) Theoretical arguments relating to the desirable extent of co-operation and the effect of co-operation on resource allocation have been examined in previous sections.

These are only a few of the theoretical predictions frequently made in connection with co-operatives, i.e. predictions that the co-operative structure will affect performance in the way indicated. It would seem an obvious step to examine the empirical evidence for these predictions, but very little has been done to test any of these supposed relationships let alone to test less obvious questions such as whether co-operatives are more or less technologically progressive than non-co-operatives.

Such empirical work as has been done on co-operatives seems to fall into two categories. First, there are the essentially descriptive accounts of the structure of particular markets, the share of throughput accounted for by co-ops, descriptions of co-operative objectives, methods and organisation, generally followed by some evaluation (e.g. Gibbons, 1970; Baron, 1967). Secondly, there are feasibility studies of co-operative projects, generally sponsored by such bodies as C.C.A.H.C.; these studies are essentially straightforward management feasibility studies paying almost no attention to those predictions about co-operatives which have been indicated above.

Such studies are a necessary preliminary, but there should be enough of them now, and enough co-ops, to permit attempts to answer some of the more interesting questions:

(a) What do potential co-operators want? Farmers who are potential co-operators are comparable to potential customers for a product or service. We need to identify 'market segments' for co-operation –

What sort of farmers are potential co-operators?

What do they want from co-operation – economic benefits or something else?

What have they got against co-operation? How important are the co-operative principles?

What sort of co-operation do they want – large or small, organised by product or area, groups or traditional co-ops, etc.?

What pricing systems are available to co-ops and what ones are preferred by farmers?

How can co-ops improve their effectiveness in getting the product right?

How can membership be encouraged?

How far do the legal differences between co-ops and companies affect their growth and numbers?

(b) What effects do co-ops have on farmers and on society?

How far, in practice, have co-ops been able to get better prices for a homogeneous product? Is their effect related to size, and how?

How far have co-ops brought about change in product quality and with what effects on producer and consumer?

Are co-ops innovators?

How far have co-ops been able to reduce distribution and/or processing costs?

How does co-operative policy differ from that of other firms in terms of sales promotion?

What effect does the existence of co-operatives have on the structure, conduct and performance of competing firms or firms further on in the marketing chain?

(*iii*) *Marketing Boards* As in the case of co-ops, Section II examined various issues relevant to the question of the results to be expected from the setting up of Marketing Boards and again it is in theoretical predictions rather than in empirical testing that the literature is strongest.

(a) *Price and output determination.* The effect of monopolistic* Marketing Boards on prices and output (given the assumption of perfect competition amongst buyers and of no limitation on the exercise by the Boards of their monopolistic powers) is well documented; using the marginal cost pricing criterion this permits some greatly over-simplified policy conclusions. Unfortunately, very little theory exists to indicate how prices and output will be determined when Marketing Boards face non-competitive buyers or when Boards' powers are subject to statutory limits or when $MC = P$ is not an adequate criterion. As Warley (1963) says, 'agricultural economists as a profession have, with some distinguished exceptions, been guilty of a Pavlovian reaction to agricultural institutions which resemble in any degree the textbook spectres of single-firm monopoly or the centralised cartel', and he concludes 'there is no need to fear that consumers can be held to ransom by organised producers'. Empirical evidence to test these predictions is scanty. Even on the question of whether farmers are – in the absence of Boards – open to exploitation, evidence does not extend far beyond the intuitive feeling that entry (into processing and distribution) is easy, that farmers themselves could enter if they wished through

* There is an implicit assumption in any discussion of Marketing Boards that they are inevitably national Boards which (subject to competition from imports) are monopolies. It is in fact compatible with the Act to have regional Boards which might have some of the advantages of national Boards without the disadvantage (if it is a disadvantage) associated with monopoly power; although such regional Boards have been proposed from time to time, the relevant theory has never been fully explored. If it is accepted (as argued above in relation to meat) that individual farmers are limited in their ability to improve marketing, regional marketing boards would provide one means by which such improvements could be brought about.

voluntary co-operation and that there is little evidence of predatory practices (Metcalf, 1969). Warley uses similar arguments but admits 'we know all too little about the structure, conduct and performance attributes of agricultural markets . . . in no other area is the gap between speculative inference and authoritative analysis so wide'. One empirical test of the exercise of monopoly power by the M.M.B. is that of the 'oft-repeated claim that under discriminating monopoly British consumers pay the highest price for liquid milk of any country in Europe' (Warley, 1963); evidence that this was not true (Bateman, 1963) merely eliminated an argument which, whatever its truth, would have been a singularly unconvincing condemnation. The Egg Board was also criticised for raising prices and causing over-production (Wright Report, 1968), but no clear standard of evaluation was set up. One of the areas which has received some empirical investigation is regional pricing policies (Karmel Report, 1969; Rayner, 1975).

(b) *Technical efficiency*. Since Marketing Boards are, perhaps even more than companies, subject to the criticism of their 'shareholders', technical efficiency would be expected to be high. Given the pattern of prices and costs, Marketing Boards would be expected to minimise costs through rationalising distribution etc. What is the evidence? Davies (1960) talks generally of the benefits of bulk-handling and the rationalisation of distribution but presents no data. Warley takes the opposite view – that the Boards have shown little interest in this area.

(c) *Product planning and development, sales promotion and technological progressiveness*. No theoretical predictions seem to have been made relating to Marketing Boards, though as far as product development is concerned, the fact that Marketing Boards' functions are defined in terms of a product may give them an insuperable tendency towards product- rather than market-orientation. However, Davies argues that 'the most important of all the benefits of the Milk Marketing Boards has arisen from their realisation that the incomes of dairy farmers can be maintained only if consumers are satisfied and if markets expand'. What is the evidence? As far as milk products are concerned, the Board has published several econometric demand studies, and this is evidence of a kind; nothing has been published by the Board on sales promotion or on consumer attitudes to dairy produce. Product development has taken place but probably on a fairly minor scale (Young, 1972). The Egg Board made more public efforts to analyse the effects of sales promotion and also of the effects of grading (Ball, 1967). The P.M.B. has been widely criticised for not grading potatoes in a way meaningful to consumers. None of this really constitutes a determined attempt by anybody to assemble evidence on the activities of the Boards in these areas.

(d) *Individual freedom*. One advantage of Marketing Boards in relation to individual freedom is that they are often thought to involve a smaller degree of government intervention than, say, Commissions or nationalisation – though whether farmers really think this, has probably not been investigated. On the other hand they involve more intervention than co-ops, and the compulsory aspect has generally been considered a disadvantage. Warley (1963), for instance, argues that many of the functions given to Marketing Boards (demand expansion, grading, storage, market intelligence) could just as well be pursued by voluntary co-operatives; this ignores the reasons discussed earlier for supposing that voluntary co-operatives may not develop even when everyone would benefit from them – reasons which perhaps make compulsion seem more justifiable. Davies (1960) makes the important point that Boards have financial power to act in producers' interest; the inability to do this is a major weakness of co-ops, and it is closely associated with the Boards' power to require compulsory levies. (Commissions may also require compulsory levies, but producers are likely to subscribe much less readily to an 'outside' Commission than to their 'own' Board.)

(e) *Price stabilisation.* The ability and desirability of Boards as a means of stabilising prices was examined by Cohen (1961). Both she and Warley concluded that short-run price stabilisation was the main justification for Boards though Warley appeared to prefer Commissions for this purpose because of the danger that Boards might abuse their power. The price stabilisation argument seems to have been regarded as critical by the Verdon Smith Committee (1964) in their rejection of the case for a Marketing Board for meat. No one appears to have tried to show how much more unstable milk prices might have been in the absence of a Board, while the Wright Committee (1967) notably ignored the problem in its examination of eggs (Guter and Low, 1971).

(f) *Income distribution.* Income distribution can be examined in several ways; as between farmers and non-farmers; as between rich farmers and poor farmers: as between tenants and landlords; as between consumers of different products. The effects of Marketing Boards on these various matters does not appear to have been examined theoretically or empirically.

(g) *General.* The lack even of clear theoretical, let alone empirical, answers as to how Marketing Boards affect these and other dimensions of performance has not prevented commentators making rather clear-cut policy recommendations. On the one hand, Davies (1960) adopted the proposition that 'agricultural marketing organisations should be promoted and supported vigorously in this country and that much more progress should be achieved in the next ten years than in the last. . . . I believe that we should have similar marketing schemes for all our main farm products in this country'. This perhaps outrageous view at least had the effect – no doubt deliberate – of provoking a more academic approach. The results of this were not always logical either for Warley's (1963) view that 'compulsory organised producer marketing should in general only be necessary where there is aggressive oligopsonistic conduct by buyers or a perishable product prone to be in short-run surplus' does not seem to follow from his own analysis. Cohen's (1961) conclusion – 'it would be a mistaken policy to extend widely producers' marketing organisations with compulsory powers unless a very clear case can be made out for substantial marketing economies or it is clear that the right conditions prevail to justify handing over to them price stabilisation' – is unexceptional but raises the question of how the 'clear case' is to be made – in particular is it to be supported by empirical evidence, as well as armchair speculation. Warley recognised that such an approach was 'not an adequate permanent substitute for empiricism', but, twelve years later (and almost 50 years since Boards came into existence) we are still no better off. We do not even have the excuse that data are not available for if there is one undisputable benefit of Marketing Boards it is that they make criticism and analysis by outsiders easy and provide them with the data with which to do it.

(*iv*) *Commodity Commissions* The general case for statutory commodity commissions was made in the Lucas Report, the Verdon Smith Committee and elsewhere. Essentially, it appears to be that a national compulsory organisation is desirable to undertake such functions as provision of market information, grading, sales promotion, possibly rationalisation and market intervention and that a Commission is preferable to a Board because of the dangers of a monopoly Board either exploiting consumers or riding roughshod over the interests of the trade. The arguments against Commissions are also straightforward. First, the line that certain activities could be undertaken by co-operatives if they are necessary at all (weak as it is) is as applicable in relation to Commissions as to Boards. Secondly, Commissions, usually representing farmers, traders and consumers, will only act when the interests of all these are in harmony and this is likely to be a somewhat rare occurrence; a Board – possibly pursuing the

'wrong' objectives but at least doing so vigorously – may be more in society's interest than a Commission with an unknown objective which it is in any case unable to pursue.

Such approaches hardly advance the argument. The alternative is again empirical evidence but there seems to be even less in relation to Commissions than to Boards and co-ops. The succession of the B.E.M.B. by the Eggs Authority should provide data for a detailed comparison.

(*v*) *Conclusions* As indicated in paragraph (i), the institutions which have been discussed here are not the only policies available, so they need to be compared not only with one another but with the alternatives. A general principle of assessment is that an institution is desirable if its interests can be made to coincide with the public interest and if it pursues its interests effectively; it is probably unsatisfactory if it has to be told to act in the public interest.

This principle is difficult to apply, and the objective here has not been to make such an assessment but to point out some of the areas where information would be required. In the absence of convincing arguments in relation to these institutions, policy has followed a pattern which seems to have been based on fashion rather than facts. Before the 1930's the free market was generally accepted as being 'obviously' in the public interest, meeting the objectives of freedom and (?) efficient resource allocation. In the 1930's the weaknesses of the free market in terms of other dimensions of performance (farm price and income levels, transmission of information) became apparent and these were believed to be associated with structural weaknesses in that competition may be disadvantageous when information is imperfect and when buyers are oligopsonists. Little attempt was made to demonstrate whether a causal relationship in fact existed between, say, oligopsony and low prices. Instead, marketing boards were introduced as a means of strengthening farmers' bargaining power, while their appeal to self-interest is also in their favour. Subsequently, emphasis was placed on the possible dangers of such 'monopolies' and of the undesirability of compulsion (e.g. the Lucas Report, 1947) and certainly by the 1960's Boards were out of favour. The Verdon Smith Report favoured a Commission for meat and this was followed by the Horticultural Marketing Council, H.G.C.A. and the Eggs Authority – no less compulsory than Boards and with no clear-cut interest but at least independent. At the same time, co-ops which had previously been thought not to need support were provided with it when the H.M.C. broke up for lack of support. We have no more empirical evidence for or against any of these organisations than we had 30 years ago.

3. Brief review of some other topics in agricultural marketing

(*i*) *Commodities* Measured in terms of value of farm output, the most important commodity after livestock is *milk*. Physical distribution (including the payment of distributors) has been the subject of several official studies (Williams, 1948; Thorold, 1962; Davies, 1966; N.B.P.I., 1967) as well as of independent work (Allen, 1959; Strauss, 1962; Strauss and Churcher, 1967) though it is curious that spatial equilibrium models have not been applied to milk distribution – not publicly, anyway. Regional pricing, which overlaps with distributional and locational problems, has also attracted attention (Karmel, 1969; Rayner, 1975), as has the more general issue of the Board's pricing policies (Nash, 1961). The remaining area in the field of milk products to attract research effort is econometric studies of demand (Atkins, 1973; Gardner and Walker, 1972; Thomas, 1972). The gaps in this research are obvious: virtually nothing is published on consumer attitudes, nor on sales promotion nor on product planning and development. In brief, and in contrast with research on meat, published work on

milk marketing has been firmly in the tradition of agricultural marketing research in Britain. Some indication of (generally unpublished) marketing research undertaken by private organisations is given by Young (1972), C.A.M. (1971) and Bingham (1969).

The remaining farm products are much less important in terms of output. *Cereals* have been studied from several points of view. Britton (1969) looked chiefly at the structure of the distribution network, Stewart (1970) at market information, Colman (1972) at the econometrics of supply and demand, Maunder (undated) at the structure, conduct and performance of the bread industry, Rees (1976) at futures markets; again, published work ignores such questions as what kinds of bread do consumers want?, how might they be influenced by promotion etc.? In the case of *eggs* and *potatoes* published studies reflect a greater degree of market orientation but even so this work is by official organisations rather than by academics (Potato Marketing Board, 1974; Eggs Authority, 1974/75). *Horticulture* has given rise to a large volume of studies emanating mainly from Wye, from Cambridge and from the C.C.A.H.C., these last-named being of particular interest because of their orientation both to problems of management and co-operation.

Farm inputs constitute a set of commodities whose marketing has lain outside the range of this review. The concept of the farmer as a buyer was mentioned briefly in Section II and certainly it seems plausible to suppose farmers' motivations may be as complex as those of consumers. In practice, most of the work on farmers as buyers has been econometric in form (Cowling, Metcalf and Rayner, 1970). Examples of some practical problems of marketing to farmers are in Leiper (1970).

(*ii*) *Retailing, wholesaling, processing and catering* The costs of these four functions constitute the 'marketing' margin, and the importance of each for all agricultural produce together was estimated by Wollen and Turner (1970). As long ago as 1959, Lepper drew attention to the relative neglect of these functions; 'presumably a question which occurs to agricultural economists is whether all these people are strictly necessary, and whether the job is being done as efficiently as possible'. O.E.C.D. (1970) reviews some of the reasons why changes are occurring in these areas and how these changes affect farmers.

Retailing is now a well-researched topic. Theoretical issues such as the determination of margins, retail assortment, the number and location of shops have been referred to already; other issues which have attracted theoretical attention have included trading stamps and resale price maintenance. The theoretical work has not lacked empirical support: McClelland (1966), Fulop (1964), Hall, Knapp and Winsten (1961) and Metcalf (1968) are only a few out of many studies. The general conclusion that retailing is competitive and efficient is one which has been reached by both independent studies (N.B.P.I., 1971), and by farmers' representatives; 'there is a liveliness and enterprise in food distribution today which should receive our full support' (Davies, 1960). Retail trading is indeed changing so quickly that the problem of forecasting future retail patterns has become of obvious importance. Forecasts have been made by N.E.D.O. (1971), by Walters (1973/74) using the Delphi technique nad by Padberg and Thorpe (1974) using a 'stages of growth' approach. Here there is less agreement; Padberg and Thorpe for instance, draw attention to the increased bargaining power of retailers, the tendency towards fewer and larger shops and especially to the belief that price competition will increase in retailing and profits become tighter; Van Musschenbroek *et al.* (1970), on the other hand, argue that while in the past benefits of large scale have accrued to the consumer, large chains may now have reached a more than optimal size and in the longer

term retail prices may have to bear the burden of an oligopolistic structure with genuine price competition a weapon of last resort. Amidst this substantial research effort on retailing there are two topics of interest to agricultural economists that do not seem to have received the attention they deserve: one is the theory and practice of retail co-operation and of symbol chains* – retailing methods which offer interesting comparisons with agricultural co-operation and groups; the other is the manner and magnitude of the effect of retailing on farmers.

While retailing is mainly (though not exclusively) undertaken by particular institutions (retail shops), *wholesaling* may take place through a variety of different institutions: markets, co-operatives, marketing boards, wholesale merchants. Research is correspondingly diffuse but my impression is that the area is less well-researched than retailing. Auction markets are unfashionable for reasons which have been discussed in the theory section: many of the questions to which they give rise: In what circumstances are markets necessary at all? Where should they be? How are prices determined? How do actual prices compare with 'optimal' prices? How do futures markets work and with what effect? have also been referred to in earlier sections. Rees (1972) has produced a definitive study of the London commodity markets, but domestic agricultural markets have not attracted comparable attention despite their continuing importance. The activities of wholesalers are less well-covered in official statistics than are those of retailers and this no doubt inhibits private research. Official reports, able to benefit from specially-obtained data, offer the most detailed studies of wholesalers' activities (Verdon Smith, 1964; Runciman, 1957; Wright, 1968; Price Commission, 1974–75 and 1975; N.B.P.I., 1967 and 1968; Monopolies and Mergers Commission, 1975).

Catering, similarly, is an activity about which data are not readily available; reference has already been made to the limited amount of work on catering outlets for meat; apart from this and a somewhat similar study by Hunt and Jamison (1967) of the catering demand for fruit and vegetables, there is little information. In any case, the collection of such data should be no more than a preliminary to studies of structure, conduct and performance or of market development – studies which still remain to be done.

Food processing, like retailing, is an area where much is known but it has not been co-ordinated in a context which has relevance to agriculture. Indeed, the food industries have generally been treated either incidentally as part of broad cross-section studies (e.g. Evely and Little, 1960; Yamey, 1973; Needham, 1970), or else individual sectors of the food industry have been the subject of detailed study (e.g. Monopolies Commission reports on breakfast cereals, tea, baby food and beer; N.B.P.I. reports on bread and flour, chocolate and sugar confectionery, brewing, fertilisers, margarine and compound cooking fats, tea, ice-cream). Only rarely have the food industries themselves been treated as a meaningful area of study, a surprising fact since they have been at the forefront of the entire merger movement (Van Musschenbroek *et al.*, 1970) and are probably one of the areas where competition through product development and sales promotion has been most intense. Certainly, in the United States, Moore and Walsh (1966), Collins and Preston (1960/61) and the National Food Commission have dealt specifically with the food industries; the few British studies include Cuthbert and Black (1959/60 and 1961/62), Mills (1959), Van Musschenbroek *et al.* (1970), and Maunder (undated). Allen (1974), presumably arguing mainly from impressionistic evidence, suggests that agribusiness in general is competitive, technologically

* Not just co-operative retailing but also co-operative processing; Maunder (undated) presents data on co-operative bread manufacture in Britain, but treats the co-operative simply as another processor: it might be right to do so, but surely needs justification.

progressive and not earning excessive returns on capital; he concludes that the main need is for better vertical co-ordination, a view which takes us back to the question of vertical integration versus contracting discussed earlier.

(*iv*) *Market information* Market information can be classified in several ways. One classification is by users who may be policy-makers, researchers or consumers as well as businessmen; another is by type of information, e.g. historical data, forecasts, forecasting methodology; another by area to which the information relates, e.g. consumer attitudes, marketing channels, structures, etc. From each of these points of view there are two questions to ask: How far does the price mechanism provide decision-makers with the information they need? How should any additional information – including possibly education in its use – be disseminated?

Hunt (1955), probably the only British researcher to specialise on this topic, concluded that 'there is some risk of our rushing to the bottle marked "Market Intelligence" as people on other occasions turn to those marked "Aspirin" or "Bicarbonate"', It needs to be remembered: first, information is costly; and secondly, that the market mechanism does make provision for information to be supplied (e.g. advertising supplies information of a kind, free, much information is obtained by word-of-mouth, market research organisations are available to supply information to clients). Those charged with providing market information need to find out what decision-makers want to know, what they already know and how they find out, and how new information should be presented to them. Hunt's request for studies of this kind has now met with some response (Stewart, 1970 on cereals, Hunt, 1971 on meat and Chivers and Kirk, 1967 on apples). Nevertheless, the field is still under-researched. We know little, for instance, about how decisions are actually reached in the face of ignorance, while market information systems, which have received widespread discussion in industrial contexts, do not seem to have been looked at from an agricultural viewpoint.

Undoubtedly, market information has improved and is improving. Official publications provide a great deal of data, generally of the kind that can be obtained by straightforward enumeration (guides to what is available are provided by H.M.S.O., 1974, N.E.D.O., 1968 and Wills, 1969). Unofficial studies complement these in three ways. First, providing information which is similar in kind but happens not to have been collected by the official bodies – there are indeed some surprising gaps that are filled only by spasmodic and unco-ordinated pieces of private research (e.g. Gibbons, 1970 on distribution channels for potatoes, Ellis, Hunter and Kirk, 1967 on retailers' procurement methods for fresh fruit and vegetables). A second function of private research is to provide 'survey' type of information of the kind not usually obtained in government studies (e.g. government reports may give data on consumption levels or concentration ratios, but not, usually, on entry barriers, businessmen's objectives, consumer attitudes). A third area for private research is that of prediction and forecasting. In all three areas, current British work in the food and agricultural marketing area is listed in the *I.G.D. Research Index*; internationally, the F.A.O. *Bibliography of Marketing* performs a similar function. As was noted in the case of meat, none of this information will be fully used unless the suppliers of market information themselves become market oriented.

(*v*) *International marketing* International marketing has certain peculiar features. From the viewpoint of the firm there is, first, the fact that foreign

consumers are likely to be culturally different with consequent implications for marketing mix decisions; second, there are a variety of practical and administrative problems involved in export marketing; third, there are alternatives to exporting, e.g. setting up overseas plants. International marketing also affects the attainment of social objectives by governments. For importing countries, international marketing may be one more source of price instability, either as an accidental result of activities in exporting countries or as a deliberate result if exporters use foreign markets as dumping grounds to facilitate the practice of price discrimination; exporters, like importers, however, will generally prefer stable prices on international markets (both for balance of payments reasons and in order to stabilise farmers' incomes). For all countries, international marketing gives added or new prominence to certain objectives, for instance, national sovereignty and multinationals or international distribution of incomes and of food aid.

Of these problems, the ones to have attracted most attention from agricultural economists are those associated with price instability. As already noted, the price mechanism itself gives rise to stabilising forces such as stock-holding and futures markets. Where these fail or are impractical, governmental intervention has taken such forms as setting up international commodity agreements which are, in a sense, marketing boards writ large. Their methods of stabilising – contracts, buffer stocks, buffer funds and quotas – match exactly the methods used by marketing boards. The only difference of principle is that an international commodity agreement is voluntary (like a co-operative) rather than compulsory (like a marketing board); the theory of oligopoly with its prediction that periods of intense competition will be followed by periods of truce describes reasonably accurately the history of international commodity agreements.

Essentially, therefore, international marketing studies are only an extension of principles already discussed in the national context. Particular problems involve descriptive aspects and the collection of empirical data to which the standard models can be applied. Rowe (1965) and Warley (1967) are illustrations of the many studies of international markets for agricultural products.

IV. Summary and conclusions

1. Marketing has developed with a business orientation, agricultural marketing with a policy one, and this accounts for the fact that the two approaches sometimes appear to have the same language but to be unable to communicate. By drawing on ideas from both approaches it is possible to distinguish three areas of study for agricultural marketers: agricultural marketing business, agricultural marketing policy and social agricultural marketing.

2. The question of what is the proper balance of research as between these three areas is important. *Social agricultural marketing* is a new area which has hardly been researched at all; it is likely to become increasingly important. *Agricultural marketing policy* has been the traditional subject matter of agricultural marketing. The main deficiency in this area is the inadequacy of the criteria for assessing marketing performance. One aspect of this is the overemphasis of economic objectives, and in this connection the recognition by 'pure' marketers of the importance of the policy area is significant because they will bring to its analysis the grounding in the behavioural sciences that it needs. The reason that *agricultural marketing business* has attracted comparatively little attention is that there are several limitations on the extent to which farmers can individually apply marketing techniques. While the emphasis on policy problems

has, I think, been right, the balance has swung too far in that direction.* Even individual farmers can benefit from some acquaintance with the marketing concept, while farmer organisations – groups and marketing boards – let alone food processors and distributors need to be fully involved in marketing in the business sense.

3. Each of these areas of study depends upon *positive* studies of relationships between marketing variables and this constitutes a vast field for research which has attracted little attention from agricultural economists: the effects of government policies on businesses in food processing and distribution; the effects of advertising; the effects of activities of firms on farmers; economies of scale, entry barriers, the effects of mergers, of vertical integration and of co-operation, the determination of retail margins and so on. Almost all studies of agricultural marketing (Davies, 1960; Lepper, 1959; Maunder, 1970; Wollen and Turner, 1970) have drawn attention to the disproportionate research effort devoted to food processing and distribution compared with that given to farming. The fact that these demands for more research have been ignored suggests that there must be an explanation. Although such research is not easy, its difficulty does not seem a likely reason – there is plenty of agricultural marketing research in the *American Journal of Agricultural Economics*, for instance. A more likely explanation may be the feeling that marketing is an unpalatable subject, perhaps because of its anti-social image, perhaps because of the fact that agricultural marketing is regarded as a dull, descriptive account of channels, the way subsidies work, the structure of distribution, etc. If so, it has been one of the intentions of this survey to argue that marketing can have a social value and that intellectually, at least, the problems of marketing are no less challenging than those of farming: descriptive studies are only a necessary preliminary, and agricultural marketers should be spending less time on description and more on analysis.

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Part V
Marketing Management

[32]

Excerpt from *Encyclopaedia of the Social Sciences*, **10**, 133–9.

MARKETING. As an economic concept the term marketing is susceptible of various interpretations. A common but fallacious theory is that it is concerned chiefly if not wholly with finished goods and is the activity of a specialized class of middlemen or that it is limited to adding time, place and possibly possession utilities to completed goods. The marketing process is infinitely more far reaching than the transfer of goods from manufacturers to final consumers. Even considered only in terms of material things it begins much earlier, as early indeed as the first movement of raw materials. Iron ore is marketed to the smelter; billets of pig iron in turn to the foundry; the foundry's product of castings to the automobile manufacturer, who in turn sells cars to dealers, from whom consumers buy.

Marketing is also involved when the day laborer negotiating for a job offers to sell his services. For the marketing of labor there have been set up employment exchanges both public and private, and buyers of labor power have established elaborate mechanisms for its purchase. Similarly, the securing of funds for industrial and, excepting taxes, for governmental uses as well is a marketing process. The use of funds is bought and sold in a variety of markets and by a variety of institutions and persons—commercial banks, investment houses, insurance companies and others. Funds markets, however, should not be confused with the stock exchanges, which are essentially places for buying and selling the used equities in already existing productive enterprises.

Also inadequate is the conception of marketing as the means by which goods are transferred from localities with a surplus to localities having a deficiency. Such a view remarks an obvious but only a secondary fact. It fails to see that it is the existence and organization of marketing activities which cause the so-called surpluses that marketing disperses. Such surpluses are not, except occasionally, accidental; they are intentional. Farmers do not by accident raise thousands of bushels of wheat, large droves of livestock or carloads of fruit. Contractors do not by accident build hotels and apartment houses. Nor do mine operators open by accident extensive veins and then, finding themselves with a surplus, seek to sell what they do not want. People do not become physicians, lawyers, brokers, stenographers, brick masons or aviators unconsciously and then seek to find a market for their laboriously acquired abilities. These surpluses of goods or ability beyond the individuals' desire to consume are built up because those concerned believe that there is a marketing mechanism which will enable them to exchange their products or specialized services for a larger portion of food, clothing and other desirable goods and services than they could obtain by direct production. Such surpluses are but a necessary part of specialized production. It is obvious that financing, an advance of at least sustenance, in monetary form or otherwise is necessary to specialization. Specialization in an institutional setting such as obtains in the western world exists because of marketing devices.

Exchange of goods occurs in the most primitive of societies and trade between nations has flourished throughout history, but under modern capitalism marketing has become not only all pervasive but central to the whole economic system. For marketing to attain this position, certain institutions are prerequisite. The most important are private property—both in goods and in one's own person—freedom of contract and diffusion of property rights. If property rights are highly concentrated there will be little occasion for exchange through marketing; in a slave or strictly communal society, the advan-

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tages of specialization will be achieved by some other means.

Given these basic institutions, certain devices are necessary to carry on the specific economic activities which constitute marketing. First there must be devices for accomplishing transfer of ownership. In a developed form this implies a vast system of law and recording. Equally fundamental are mechanisms for price determination. Prices can be determined by the higgling of individual buyers and sellers, but this is usually least costly when aided by such facilities as those provided by commodity exchanges or one-price marketing systems. The price mechanism is itself dependent on the existence of a unit of valuation, making possible a rational appraisal of various costs and their comparison with anticipated selling prices; transport organizes specialization through space. Storage organizes it through time. Basic also to organization of specialization by marketing is widespread information concerning the activities of specialists and concerning the existence of supplies, desires, methods of transport, protection and finance and localities in which trading can be done to advantage. Agencies for fixing standards of quality and for grading represent subsidiary aspects of the information function in the modern marketing system. Finally, a marketing system is dependent upon a proper ideology. It will be greatly restricted in its scope by the prevalence of certain kinds of religious ideas or of strong nationalist or localist feelings.

Marketing activities have been found by anthropologists among primitive peoples everywhere. Exchange among such groups is sometimes ceremonial, sometimes purely economic in nature; and specialized products may be traded in—through barter—over wide areas. Throughout history there have been few groups so separated from the rest of the world as not to be touched by marketing activities. But marketing as a system of economic relationships appropriate to specialization and diversified private ownership is of course not to be found in social and economic systems based on communal living or on slavery and subsistence from concentrated landownership. The most important type of marketing in the ancient world was that between countries. It was chiefly a trade in luxury goods. Babylon, Crete, Phoenicia, Arabia and to some extent Rome rose to greatness on the movement of trade between peoples (*see* COMMERCE). This trade was facilitated by coinage and by banking machinery, regulated by legislation, supported by treaties, protected by armies and navies, encouraged by the state as a source of income and general prosperity and often aided by official representatives comparable to modern consuls.

Domestic trade was by no means absent from the ancient world. In Athens merchants were classed as wholesalers—usually importers and shipowners—and retailers. The latter operated within single cities, selling their wares in small shops or in booths in the "markets." In the larger cities the sale of particular goods was encouraged by the establishment of special markets. Hawking about the streets was common, and the rudeness of fishwives had already become a proverb. In the days of Athens' greatness middlemen were already regarded as profiteers, and regulations were repeatedly passed to limit their operations.

The trade life of Rome was a vast mixture of the military, the administrative and the more narrowly commercial. But there was keen discernment as to the nature of exchange in the observation that Rome exported legions, lawgivers and the blessed *pax romana* and took in return tribute of the world. Rome was provided with a "wilderness of shops, grocers' stalls, milk dealers, and wine shops." The Forum itself originated as a market place. In Hadrian's day there were two great shopping districts for Romans outside the fora, one for the plebeian trade struggling for bargains and another with the "finest retail shops in the entire world."

Ancient trade operations were, however, meager indeed when compared with modern marketing. While city life necessarily required a marketing organization for supplying food and drink, it was only the more valuable articles which could bear the costs of shipment to a great distance, and up until the industrial revolution marketing touched only lightly the processes of production of the great bulk of goods and services.

While many of the patterns basic to the modern marketing mechanism were cut in antiquity, more were supplied by the growth of trade in northern Europe, particularly its expansion in England following the break up of the manorial system. Under the latter economic life was communal in the sense that the community worked together; and division of the fruits of industry on the manor, villa or great estate was rather by customary regulation than by exchange. Although mediaeval Europe was decidedly noncommercial, yet some marketing activity existed

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throughout the period. Important in its organization were the merchants of the Italian cities, whose fleets brought the products of the Orient to the north. At a little later period the Hanseatic League rose to a position of dominance in the trade of the north. Fairs and markets were the chief trading institutions of mediaeval life. The first were periodic or occasional. They were sources for wholesale buyers and outlets for merchants from a distance as well as points for consumer purchase. Their beginning was religious, growing from the assemblies of pious worshipers who congregated around famous shrines on the feast days of saints. The church in giving protection greatly facilitated their development, the market cross becoming the emblem of peace for trade. Within national boundaries a market was usually established by royal grant or under the protection of some religious order. Market towns furnished points where goods purchased from fairs could be distributed or where exchange between country and town could readily take place. Markets like fairs were periodic but more frequent, weekly or semi-weekly. Conflicts of market towns as to the proper distance between them—interesting forecast of modern discussions of marketing areas—were numerous. In the larger towns shops and stalls, the machinery of markets, were continuous appurtenances. The peddler was common in the Middle Ages, carrying the wares of craftsmen or fairs to more remote points of sale. Peddler, shopkeeper, merchant, this was the commercial hierarchy, the larger merchants forming in parts of Europe an aristocratic class important in social and political life.

The ideological environment of the Middle Ages, however, was restrictive to marketing. The advantages of specialization were imperfectly realized, and the fallacy was prevalent that the trader took something for nothing. Certain types of trade were prohibited as immoral, the ground being in the case of funds that loaning took advantage of necessity. Prices, particularly for foods, were commonly regulated.

The rise of marketing as the functioning of a series of mechanisms which coordinate economic production, determine its direction and make possible a high degree of specialization is simply illustrated in those changes which took place in the woolen industry in England in the declining days of the guilds and prior to the coming of steam power. The first enclosure movement increased the supply of wool and of labor. With the decline of the guilds England presented an economic setting in which merchant-manufacturers found it possible to purchase wool, to employ in the workman's home or small shop spinners, weavers, dyers and others necessary to specialized cloth production and to sell the product in a market with which these workers had no contact. In such a sale of their specialized activity there was a better living to be gained by the workers than they knew how to obtain otherwise. The merchant became the integrating factor in the entire process of cloth production and sale. A similar transformation was gradually occurring in other industries; for instance, by the middle of the seventeenth century the merchant dominated the silk industry of Lyons; but the change came earliest in England, where all the requisites for sustaining specialized production organized through buying and selling were rapidly coming into existence in the sixteenth century. By the middle of that century it was legal to charge interest for money if the rate was not higher than 10 percent. By 1638 the outlines of a post system provided the basis for rapidly carried information—not only letters but newspapers, the first of which had appeared some seventeen years before. By 1667 insurance against certain risks could be bought from organized companies. Almost as early regular lines of wagoners sold transport. For aid in passing goods on to the consumer, manufacturer-merchants found special dealers quickly arising to offer their services. It was through such changes that there came into western economic life that system of organizing industry which is called the business system. A business system is essentially a marketing system.

Any description of the contemporary system of marketing must of necessity be sketchy because of the amount of material to be covered. In the first place it must consider the methods of marketing of a number of different classes of goods: raw materials, such as ore, coal and timber; semimanufactured goods, such as steel sheets and bars; manufactured parts, such as castings, shapes and bolts; goods, as yet unused, for personal consumption; goods partially consumed, resold for further consumption; and, finally, equipment used in manufacture and distribution, such as power plant and factory machinery and office and store fixtures. Any of these classes of goods may be marketed either from the owner directly to the consumer or to the user for further production; through organized exchanges; through auctions; through cooperative organizations; or from the owner to and

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through trading intermediaries, such as wholesalers, retailers, commission men and brokers.

No one of these methods is applied solely to any one class of goods. Certain general correspondences are, however, to be observed. The commodity exchange (*q.v.*) has been most frequently used in the marketing of raw materials, particularly agricultural products. Auctions (*q.v.*), in many ways similar to organized exchanges but typically operated by private companies, function importantly in the wholesale selling of fruits, of wool—particularly in Australia and England—and in the fur trade. Auctions are also important in the resale of partially used articles of many descriptions. Cooperative marketing organizations have developed in the United States chiefly in the sale of agricultural products—citrus fruits, cotton, wool and livestock. In Europe cooperative stores play an important part in almost every field and wholesale cooperatives link producer and retailer. Cooperative retail stores have never become of great significance in the United States, but cooperative buying has in recent years become a prominent aspect of retailer-wholesaler organization, particularly in the grocery and drug fields.

Direct selling is of some importance in both Europe and the United States in the marketing of goods to final consumers but is far more extensively used by manufacturers in selling equipment, semimanufactured goods and parts to other manufacturers and by wholesalers in reaching retail outlets. In all of these cases the salesman typically appears as an intermediary agent of the seller. Direct selling also still plays a considerable role in the marketing of fruits and vegetables in cities, where growers sell to consumers in markets similar in many ways to those of mediaeval days. Not only has peddling not disappeared from the rural and suburban districts, but it is widespread in the house to house sale of widely advertised products.

The trading intermediaries fall into two major classes—wholesalers and retailers. Most changes in the marketing system have come about through the emergence of new types of wholesaler or retailer and in the shifting of their relationships to one another. The wholesale intermediaries fall into two main groups. Certain of them, such as wholesalers and jobbers—not always distinguishable in certain trades—purchase from manufacturers or other producers typically for the purpose of resale to retailers. Others, such as commission men, brokers and manufacturers' agents, acting as independent enterprisers sell goods for manufacturers, refineries, farmers and other producers but do not actually take title to the goods (*see* WHOLESALING).

The chief classes of retailers are independent retailers, chain stores (corporate and voluntary), department stores, mail order houses, and for Europe cooperative retail stores should be added to the list (*see* RETAIL TRADE). The chain store, mail order house and department store are, from the point of view of their buying, wholesalers as well. The term independent retailers is usually employed to designate a retail organization limited to a single unit, commonly located in a residence neighborhood, selling consumer merchandise, usually of one general class, such as groceries or drugs. In the last respect it differs from the independent general store handling the whole range of consumer products from notions to heavy hardware, which was once the common type and which still exists to some extent in rural districts. The outstanding development in the field of the specialized trading middlemen during the past decade has been the growth of the corporate chain store, a series of unit outlets in one or several cities owned and directed from a central office. Outstanding features of chain store development have been the decreasing "service"—delivery and credit—offered and the standardization in equipment and, in large degree, in goods handled. The success of corporate chain stores has led to the development of so-called voluntary chains. The term voluntary chain is applied to a number of types of organizations: cooperative retail groups joined informally for advertising or purchasing; retailer owned wholesale establishments; wholesaler organized and sponsored groups of retailers; and groups of wholesalers or retailers organized by outside agencies.

The department store made its first appearance in Europe and developed in the United States during the latter half of the nineteenth century, until it has become an accepted institution in most cities of any size. Within the past few years chains of department stores have developed, in some cases into enormous organizations. The mail order house began as a store soliciting orders by catalogue and receiving orders by mail, chiefly from small town and country buyers. In recent years the advent of good roads and automobiles has made the possibilities of urban shopping directly competitive to mail order business and has impelled the

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larger mail order houses to establish chains of retail outlets within cities. These concerns have therefore become in part chain stores.

The rapid and dramatic growth of chain stores and the increasing number of mergers gave rise, in the period before 1929, to predictions of the ultimate disappearance of the independent merchant. Figures published by the United States Census of Distribution indicate, however, that even in 1929 nearly 21 percent of all persons engaged in wholesaling and retailing in the United States were individual proprietors or members of firms. In certain European countries, particularly in France, the proportion would probably have been considerably higher. Since 1929 it has not only become evident that the independent unit may have definite economic advantages, but there has been a tendency for such advantages to be safeguarded by legislation inimical to the chain groups. The issue is by no means settled. The larger units in the department store and mail order fields, followed by the larger chains, were first to apply advanced methods of accounting control, personnel administration, specialized buying and mechanized operations. Ways have been found, however, to make the advantages of most of these techniques available to smaller enterprises.

Quantitative information as to marketing and the marketing process is extremely sparse and must remain difficult to obtain because of the very complexity of the subject, the vagueness of its delimitation and the rapidity with which conditions in the field change. In the United States every census has included some information on trade occupations, but not until 1930 was a Census of Distribution taken. This is the most complete survey of marketing available for any country. Since 1912 the Harvard Bureau of Business Research has been making studies of distribution costs for particular industries, and in recent years business research organizations in other universities have undertaken similar surveys. The United States Bureau of Foreign and Domestic Commerce also has published a series of distribution cost studies since 1928. In Germany the Ausschuss zur Untersuchung der Erzeugungs- und Absatzbedingungen der deutschen Wirtschaft has been publishing since 1927 a series of studies of German economy, one group of which deals with marketing, and a semi-official organization in Berlin, the Forschungsstelle für den Handel, issues reports on various aspects of marketing. In addition occasional studies have been made by governmental departments in other countries, as, for example, those by the Ministry of Agriculture and Fisheries and the Empire Marketing Board in Great Britain.

From these sources it is possible to construct some kind of picture of the position of marketing in the modern economic system. The United States Census of Distribution for 1930 indicated that, in 1929, 7,716,561 persons, or nearly 16 percent of all those gainfully employed in the United States, were engaged in wholesale and retail trade. Of these 6,020,747 were in retailing, 1,510,607 as proprietors and firm members (not on pay roll), 3,833,581 as full time employees and 676,559 as part time employees. The remaining 1,695,814 persons were engaged in wholesaling, 90,772 as proprietors and firm members (not on pay roll) and 1,605,042 as employees. Comparable figures for earlier years are not available, but a rough measure of the number of persons engaged in marketing is given by Census of Occupations figures. If the census classifications of agriculture, forestry and fishing, extraction of minerals and manufacturing and mechanical industries are grouped as production occupations, and transportation and communication, trade and clerical occupations as distribution occupations, the personnel in distribution or marketing constituted 25 percent of the total for the two groups in 1910, 30 percent in 1920 and 35 percent in 1930. It is to be noted that for the last year this classification indicates that approximately twice as many persons were engaged in distribution as were included in wholesaling and retailing occupations as reported by the Census of Distribution. While exact comparison is impossible, figures for European countries indicate a similar trend toward an increase in the number of persons engaged in marketing activities. Thus the League of Nations, Economic and Financial Section, *International Statistical Year-book, 1929* (Geneva 1930) reports that for Germany in 1907 8.7 percent of the total gainfully employed were engaged in "commerce" and in 1925 11.7 percent; for France in 1911 9.8 percent were engaged in commerce and in 1921 10.4 percent. Later figures, while computed on a different basis and not directly comparable, show a continuation of the same trend.

Another indication of the relative importance of marketing is the total sales involved. The 1930 Census of Distribution reported for 1929 in the United States as a whole 1,543,158 retail stores and 169,702 wholesale establishments.

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Annual net sales of retail stores in that year were reported to be $49,114,653,269, and the annual pay roll $5,189,669,960. For wholesale establishments annual net sales for 1929 were $69,291,547,604, and the annual pay roll amounted to $3,010,129,535. The total selling value of goods distributed by manufacturing plants in 1929 was $63,409,200,000.

A rough quantitative analysis of the flow of goods from manufacturers to the several types of consumers is possible also. This table dis-

DISTRIBUTION OF OUTPUT OF MANUFACTURING PLANTS IN THE UNITED STATES, 1929

	Percentage
To industrial consumers	31.3
To manufacturers' own wholesale branches to industrial consumers	5.7
To wholesalers to industrial consumers	7.0
To manufacturers' own wholesale branches to wholesalers to industrial consumers	0.8
Total to industrial consumers	44.8
To home consumers	2.5
To manufacturers' own retail branches to home consumers	1.9
To manufacturers' own wholesale branches to home consumers	0.1
To retailers to home consumers	18.6
To manufacturers' own wholesale branches to retailers to home consumers	6.9
To wholesalers to retailers to home consumers	22.6
To manufacturers' own wholesale branches to wholesalers to retailers to home consumers	2.6
Total to home consumers	55.2

Source: Derived from United States, Bureau of the Census, *Fifteenth Census, 1930; Census of Distribution: Wholesale Distribution* (1933) 33–35.

regards the transactions of such middlemen as brokers and also the sales of wholesalers to other wholesalers and of retailers to other retailers. It is significant that nearly half the goods manufactured are marketed to industrial users.

From certain points of view it is helpful to classify goods sold into, first, those which are marketed through organized exchanges and, second, those which may be said to be marketed administratively. In the first group the purpose of the marketing machinery is to fix a price which will clear the market. It is of this group that value theorists have been chiefly aware. The second group includes those goods upon which a price is fixed by the seller, at least for a considerable period of time, and for which sales efforts are used to clear the market at the fixed price. It is in connection with the second class of goods that the bulk of advertising, although by no means all of it, and other types of so-called high pressure selling are employed. While the organized exchanges are frequently commented upon adversely, the administrative type of marketing has been subject to rather clamorous criticism, particularly in recent years.

The cost of marketing has always aroused some suspicion, but whenever costs of living press hard on the available incomes of a large proportion of the population this suspicion is intensified. Since the World War the widening spread in almost every country between indices of wholesale prices and the indices of costs of living has been regarded as tangible evidence of undue distribution costs. Although much has been said in recent years even in official circles of the wastes and increasing costs of marketing, statistical evidence is almost unavailable. The most conscientious efforts to compare present with past marketing costs are balked by the fact that valid series of data are meager and that rapidly advancing technology and swiftly changing standards of materials, styles and services of retailers make what is purchased even under the same name extremely variable from year to year. While they show nothing as to trends in marketing costs, the most complete figures of distributing expense, those of the United States Census of Distribution, showed the costs of retailing to be 24.83 percent of total sales and those of wholesaling to be 8.85 percent of sales. Perhaps more significant are figures for limited classes of business. The Harvard Bureau of Business Research has compiled a record of operating expenses of department stores for twelve consecutive years; according to these studies operating expenses in terms of percentage of sales show an increase from 25.9 percent in 1920 to 34.5 percent, 35.9 percent and 36.0 percent for stores with a turnover of less than $500,000, from $500,000 to $2,000,000 and $2,000,000 or over respectively, in 1931 (*Bulletin*, no. 33, 1922, and no. 88, 1932). A somewhat similar study of German department store costs made by the Ausschuss (III, 9, vol. i, p. 207) shows a similar trend. Average costs expressed in percentage of volume of sales increased from 24.7 in 1913 to 27.2 in 1926 for stores with yearly sales of over 10,000,000 marks and from 16.6 percent in 1913 to 19.9 percent in 1926 for stores with yearly sales of under 250,000 marks (the largest and smallest groups reported).

All such figures, however, must be viewed with caution and analyzed with care. As a measure of efficiency, costs expressed as a percentage

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of selling price may be deceptive when applied to a series of years, since changes in the value of the dollar may not be reflected identically in selling prices and in costs. Increases of advertising expenditure may indicate an added cost or the utilization of a form of hawking more economical than personal selling. So too the multiplication of persons in mercantile activities may be interpreted entirely in terms of increased marketing costs, or may be viewed as evidence of the intensification of specialization. The former interpretation, if used without further evidence, is analogous to the assertion that the coming of the railroads, which added thousands of middlemen, was an uneconomical development.

Administrative marketing methods may be criticized further in that they constitute tools by means of which those financially interested strive to cut the patterns of culture. That they so strive and to a degree succeed is certain. Whether this is bad or good is less certain. It is part of that freedom of expression in political, religious and economic life which is regarded by some as among the chief triumphs of modern civilization. In terms of the present mores one may say of economic persuasion that like political and religious persuasion it should be controlled to the extent that those interested in its control can control it. Short of violence, they are largely limited to the means which it itself employs. A general criticism of marketing is a criticism of the business system of which it is not only the spirit but most of the body.

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WROE ALDERSON*

The Analytical Framework for Marketing

My assignment is to discuss the analytical framework for marketing. Since our general purpose here is to consider the improvement of the marketing curriculum, I assume that the paper I have been asked to present might serve two functions. The first is to present a perspective of marketing which might be the basis of a marketing course at either elementary or advanced levels. The other is to provide some clue as to the foundations in the social sciences upon which an analytical framework for marketing may be built.

Economics has some legitimate claim to being the original science of markets. Received economic theory provides a framework for the analysis of marketing functions which certainly merits the attention of marketing teachers and practitioners. It is of little importance whether the point of view I am about to present is a version of economics, a hybrid of economics and sociology, or the application of a newly emergent general science of human behavior to marketing problems. The analytical framework which I find congenial at least reflects some general knowledge of the social sciences as well as long experience in marketing analysis. In the time available I can do no more than present this view in outline or skeleton form and leave you to determine how to classify it or whether you can use it.

An advantageous place to start for the analytical treatment of marketing is with the radical heterogeneity of markets. Heterogeneity is inherent on both the demand and the supply sides. The homogeneity which the economist assumes for certain purposes is not an antecedent condition for marketing. Insofar as it is ever realized it emerges out of the marketing process itself.

The materials which are useful to man occur in nature in heterogeneous mixtures which might be called conglomerations since these

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mixtures have only a random relationship to human needs and activities. The collection of goods in the possession of a household or an individual also constitutes a heterogeneous supply, but it might be called an assortment since it is related to anticipated patterns of future behavior. The whole economic process may be described as a series of transformations from meaningless to meaningful heterogeneity. Marketing produces as much homogeneity as may be needed to facilitate some of the intermediate economic processes but homogeneity has limited significance or utility for consumer behavior or expectations.

The marketing process matches materials found in nature or goods fabricated from these materials against the needs of households or individuals. Since the consuming unit has a complex pattern of needs, the matching of these needs creates an assortment of goods in the hands of the ultimate consumer. Actually the marketing process builds up assortments at many stages along the way, each appropriate to the activities taking place at that point. Materials or goods are associated in one way for manufacturing, in another way for wholesale distribution, and in still another for retail display and selling. In between the various types of heterogeneous collections relatively homogeneous supplies are accumulated through the processes of grading, refining, chemical reduction and fabrication.

Marketing brings about the necessary transformations in heterogeneous supplies through a multiphase process of sorting. Matching of every individual need would be impossible if the consumer had to search out each item required or the producer had to find the users of a product one by one. It is only the ingenious use of intermediate sorts which make it possible for a vast array of diversified products to enter into the ultimate consumer assortments as needed. Marketing makes mass production possible first by providing the assortment of supplies needed in manufacturing and then taking over the successive transformations which ultimately produce the assortments in the hands of consuming units.

To some who have heard this doctrine expounded, the concept of sorting seems empty, lacking in specific behavioral content, and hence unsatisfactory as a root idea for marketing. One answer is that sorting is a more general and embracing concept than allocation which many economists regard as the root idea of their science. Allocation is only one of the four basic types of sorting all of which are involved in marketing. Among these four, allocation is certainly no more significant than assorting, one being the breaking down of a hemogenous supply and the other the building up of a heterogeneous supply. As-

sorting, in fact, gives more direct expression to the final aim of marketing but allocation performs a major function along the way.

There are several basic advantages in taking sorting as a central concept. It leads directly to a fundamental explanation of the contribution of marketing to the overall economy of human effort in producing and distributing goods. It provides a key to the unending search for efficiency in the marketing function itself. Finally, sorting as the root idea of marketing is consistent with the assumption that heterogeneity is radically and inherently present on both sides of the market and that the aim of marketing is to cope with the heterogeneity of both needs and resources.

At this stage of the discussion it is the relative emphasis on assorting as contrasted with allocation which distinguishes marketing theory from at least some versions of economic theory. This emphasis arises naturally from the preoccupation of the market analyst with consumer behavior. One of the most fruitful approaches to understanding what the consumer is doing is the idea that she is engaged in building an assortment, in replenishing or extending an inventory of goods for use by herself and her family. As evidence that this paper is not an attempt to set up a theory in opposition to economics it is acknowledged that the germ of this conception of consumer behavior was first presented some eighty years ago by the Austrian economist Boehm-Bawerk.

The present view is distinguished from that of Boehm-Bawerk in its greater emphasis on the probabilistic approach to the study of market behavior. In considering items for inclusion in her assortment the consumer must make judgments concerning the relative probabilities of future occasions for use. A product in the assortment is intended to provide for some aspect of future behavior. Each such occasion for use carries a rating which is a product of two factors, one a judgment as to the probability of its incidence and the other a measure of the urgency of the need in case it should arise. Consumer goods vary with respect to both measures. One extreme might be illustrated by cigarettes with a probability of use approaching certainty but with relatively small urgency or penalty for deprivation on the particular occasion for use. At the other end of the scale would be a home fire extinguisher with low probability but high urgency attaching to the expected occasion of use.

All of this means that the consumer buyer enters the market as a problem-solver. Solving a problem, either on behalf of a household or on behalf of a marketing organization means reaching a decision in the face of uncertainty. The consumer buyer and the marketing execu-

tive are opposite numbers in the double search which pervades marketing; one looking for the goods required to complete an assortment, the other looking for the buyers who are uniquely qualified to use his goods. This is not to say that the behavior of either consumers or executives can be completely characterized as rational problem-solvers. The intention rather is to assert that problem-solving on either side of the market involves a probabilistic approach to heterogeneity on the other side. In order to solve his own problems arising from heterogeneous demand, the marketing executive should understand the processes of consumer decisions in coping with heterogeneous supplies.

The viewpoint adopted here with respect to the competition among sellers is essentially that which is associated in economics with such names as Schumpeter, Chamberlin and J. M. Clark and with the emphasis on innovative competition, product differentiation and differential advantage. The basic assumption is that every firm occupies a position which is in some respects unique, being differentiated from all others by characteristics of its products, its services, its geographic location or its specific combination of these features. The survival of a firm requires that for some group of buyers it should enjoy a differential advantage over all other suppliers. The sales of any active marketing organization come from a core market made up of buyers with a preference for this source and a fringe market which finds the source acceptable, at least for occasional purchases.

In the case of the supplier of relatively undifferentiated products or services such as the wheat farmer differential advantage may pertain more to the producing region than to the individual producer. This more diffused type of differential advantage often becomes effective in the market through such agencies as the marketing cooperative. Even the individual producer of raw materials, however, occupies a position in the sense that one market or buyer provides the customary outlet for his product rather than another. The essential point for the present argument is that buyer and seller are not paired at random even in the marketing of relatively homogeneous products but is related to some scale of preference or priority.

Competition for differential advantage implied goals of survival and growth for the marketing organization. The firm is perennially seeking a favorable place to stand and not merely immediate profits from its operations. Differential advantage is subject to change and neutralization by competitors. In dynamic markets differential advantage can only be preserved through continuous innovation. Thus competition presents an analogy to a succession of military campaigns

rather than to the pressures and attrition of a single battle. A competitor may gain ground through a successful campaign based on new product features or merchandising ideas. It may lose ground or be forced to fall back on its core position because of the successful campaigns of others. The existence of the core position helps to explain the paradox of survival in the face of the destructive onslaughts of innovative competition.

Buyers and sellers meet in market transactions each side having tentatively identified the other as an answer to its problem. The market transaction consumes much of the time and effort of all buyers and sellers. The market which operates through a network of costless transactions is only a convenient fiction which economists adopt for certain analytical purposes. Potentially the cost of transactions is so high that controlling or reducing this cost is a major objective in market analysis and executive action. Among economists John R. Commons has given the greatest attention to the transaction as the unit of collective action. He drew a basic distinction between strategic and routine transactions which for present purposes may best be paraphrased as fully negotiated and routine transactions.

The fully negotiated transaction is the prototype of all exchange transactions. It represents a matching of supply and demand after canvassing all of the factors which might affect the decision on either side. The routine transaction proceeds under a set of rules and assumptions established by previous negotiation or as the result of techniques of pre-selling which take the place of negotiation. Transactions on commodity and stock exchanges are carried out at high speed and low cost but only because of carefully established rules governing all aspects of trading. The economical routines of self-service in a super market are possible because the individual items on display have been pre-sold. The routine transaction is the end-result of previous marketing effort and ingenious organization of institutions and processes. Negotiation is implicit in all routine transactions. Good routines induce both parties to save time and cost by foregoing explicit negotiation.

The negotiated transaction is the indicated point of departure for the study of exchange values in heterogeneous markets. Many considerations enter into the decision to trade or not to trade on either side of the market. Price is the final balancing or integrating factor which permits the deal to be made. The seller may accept a lower price if relieved from onerous requirements. The buyer may pay a higher price if provided with specified services. The integrating price is one that assures an orderly flow of goods so long as the balance of other consid-

erations remains essentially unchanged. Some economists are uneasy about the role of the negotiated transaction in value determination since bargaining power may be controlling within wide bargaining limits. These limits as analyzed by Commons are set by reference to the best alternatives available to either partner rather than by the automatic control of atomistic competition. This analysis overlooks a major constraint on bargaining in modern markets. Each side has a major stake in a deal that the other side can live with. Only in this way can a stable supply relationship be established so as to achieve the economics of transactional routines. Negotiation is not a zero sum game since the effort to get the best of the other party transaction by transaction may result in a loss to both sides in terms of mounting transactional cost.

In heterogeneous markets price plays an important role in matching a segment of supply with the appropriate segment of demand. The seller frequently has the option of producing a streamlined product at a low price, a deluxe product at a high price or selecting a price-quality combination somewhere in between. There are considerations which exert a strong influence on the seller toward choosing the price line or lines which will yield the greatest dollar volume of sales. Assuming that various classes of consumers have conflicting claims on the productive capacity of the supplier, it might be argued that the price-quality combination which maximized gross revenue represented the most constructive compromise among these claims. There are parallel considerations with respect to the claims of various participants in the firm's activities on its operating revenue. These claimants include labor, management, suppliers of raw materials and stockholders. Assuming a perfectly fluid situation with respect to bargaining among these claimants, the best chance for a satisfactory solution is at the level of maximum gross revenue. The argument becomes more complicated when the claims of stockholders are given priority, but the goal would still be maximum gross revenue as suggested in a recent paper by William J. Baumol. My own intuition and experience lead me to believe that the maximization of gross revenue is a valid goal of marketing management in heterogeneous markets and adherence to this norm appears to be widely prevalent in actual practice.

What has been said so far is doubtless within the scope of economics or perhaps constitutes a sketch of how some aspects of economic theory might be reconstructed on the assumption of heterogeneity rather than homogeneity as the normal and prevailing condition of the market. But there are issues raised by such notions as enterprise survival, expec-

tations, and consumer behavior, which in my opinion cannot be resolved within the present boundaries of economic science. Here marketing must not hesitate to draw upon the concepts and techniques of the social sciences for the enrichment of its perspective and for the advancement of marketing as an empirical science.

The general economist has his own justifications for regarding the exchange process as a smoothly functioning mechanism which operates in actual markets or which should be taken as the norm and standard to be enforced by government regulation. For the marketing man, whether teacher or practitioner, this Olympian view is untenable. Marketing is concerned with those who are obliged to enter the market to solve their problems imperfect as the market may be. The persistent and rational action of these participants is the main hope for eliminating or moderating some of these imperfections so that the operation of the market mechanism may approximate that of the theoretical model.

To understand market behavior the marketing man takes a closer look at the nature of the participants. Thus he is obliged, in my opinion, to come to grips with the organized behavior system. Market behavior is primarily group behavior. Individual action in the market is most characteristically action on behalf of some group in which the individual holds membership. The organized behavior system is related to the going concern of John R. Commons but with a deeper interest in what keeps it going. The organized behavior system is also a much broader concept including the more tightly organized groups acting in the market such as business firms and households and loosely connected systems such as the trade center and the marketing channel.

The marketing man needs some rationale for group behavior, some general explanation for the formation and persistence of organized behavior systems. He finds this explanation in the concept of expectations. Insofar as conscious choice is involved, individuals operate in groups because of their expectations of incremental satisfactions as compared to what they could obtain operating alone. The expected satisfactions are of many kinds, direct and indirect. In a group that is productive activity is held together because of an expected surplus over individual output. Other groups such as households and purely social organizations expect direct satisfactions from group association and activities. They also expect satisfactions from future activities facilitated by the assortment of goods held in common. Whatever the character of the system, its vitality arises from the expectations of the individual members and the vigor of their efforts to achieve them through group action. While the existence of the group is entirely

derivative, it is capable of operating as if it had a life of its own and was pursuing goals of survival and growth.

Every organized behavior system exhibits a structure related to the functions it performs. Even in the simplest behavior system there must be some mechanism for decision and coordination of effort if the system is to provide incremental satisfaction. Leadership emerges at an early stage to perform such functions as directing the defense of the group. Also quite early is the recognition of the rationing function by which the leader allocates the available goods or satisfactions among the members of the group.

As groups grow in size and their functions become more complex functional specialization increases. The collection of individuals forming a group with their diversified skills and capabilities is a meaningful heterogeneous ensemble vaguely analogous to the assortment of goods which facilitates the activities of the group. The group, however, is held together directly by the generalized expectations of its members. The assortment is held together by a relatively weak or derivative bond. An item "belongs" to the assortment only so long as it has some probability of satisfying the expectations of those who possess it.

This outline began with an attempt to live within the framework of economics or at least within an economic framework amplified to give fuller recognition to heterogeneity on both sides of the market. We have now plunged into sociology in order to deal more effectively with the organized behavior system. Meanwhile we attempt to preserve the line of communication to our origins by basing the explanations of group behavior on the quasi-economic concept of expectations.

The initial plunge into sociology is only the beginning since the marketing man must go considerably further in examining the functions and structure of organzied behavior systems. An operating group has a power structure, a communication structure and an operating structure. At each stage an effort should be made to employ the intellectual strategy which has already been suggested. That is, to relate sociological notions to the groundwork of marketing economics through the medium of such concepts as expectations and the processes of matching and sorting.

All members of an organized behavior system occupy some position or status within its power structure. There is a valid analogy between the status of an individual or operating unit within the system and the market position of the firm as an entity. The individual struggles for status within the system having first attained the goal of membership. For most individuals in an industrial society status in some operating system is a prerequisite for satisfying his expectations. Given

the minimal share in the power of the organization inherent in membership, vigorous individuals may aspire to the more ample share of power enjoyed by leadership. Power in the generalized sense referred to here is an underlying objective on which the attainment of all other objectives depends. This aspect of organized behavior has been formulated as the power principle, namely, "The rational individual will act in such a way to promote the power to act." The word "promote" deliberately glosses over an ambivalent attitude toward power, some individuals striving for enhancement and others being content to preserve the power they have.

Any discussion which embraces power as a fundamental concept creates uneasiness for some students on both analytical and ethical grounds. My own answer to the analytical problem is to define it as control over expectations. In these terms it is theoretically possible to measure and evaluate power, perhaps even to set a price on it. Certainly it enters into the network of imputations in a business enterprise. Management allocates or rations status and recognition as well as or in lieu of material rewards. As for the ethical problem, it does not arise unless the power principle is substituted for ethics as with Macchiavelli. Admitting that the power principle is the essence of expediency, the ethical choice of values and objectives is a different issue. Whatever his specific objectives, the rational individual will wish to serve them expediently.

If any of this discussion of power seems remote from marketing let it be remembered that major preoccupation of the marketing executive, as pointed out by Oswald Knauth, is with the creation or the activation of organized behavior systems such as marketing channels and sales organizations. No one can be effective in building or using such systems if he ignores the fundamental nature of the power structure.

The communication structure serves the group in various ways. It promotes the survival of the system by reinforcing the individual's sense of belonging. It transmits instructions and operating commands or signals to facilitate coordinated effort. It is related to expectations through the communication of explicit or implied commitments. Negotiations between suppliers and customers and much that goes on in the internal management of a marketing organization can best be understood as a two-way exchange of commitments. A division sales manager, for example, may commit himself to produce a specified volume of sales. His superior in turn may commit certain company resources to support his efforts and make further commitments as to added rewards as an incentive to outstanding performance.

For some purposes it is useful to regard marketing processes as a

flow of goods and a parallel flow of informative and persuasive messages. In these terms the design of communication facilities and channels becomes a major aspect of the creation of marketing systems. Marketing has yet to digest and apply the insights of the rapidly developing field of communication theory which in turn has drawn freely from both engineering and biological and social sciences. One stimulating idea expounded by Norbert Wiener and others is that of the feedback of information in a control system. Marketing and advertising research are only well started on the task of installing adequate feedback circuits for controlling the deployment of marketing effort.

Social psychology is concerned with some problems of communication which are often encountered in marketing systems. For example, there are the characteristic difficulties of vertical communication which might be compared to the transmission of telephone messages along a power line. Subordinates often hesitate to report bad news to their superiors fearing to take the brunt of emotional reactions. Superiors learn to be cautious in any discussion of the subordinate's status for fear that a casual comment will be interpreted as a commitment. There is often a question as to when a subordinate should act and report and when he should refer a matter for decision upstream. Progress in efficiency, which is a major goal in marketing, depends in substantial part on technological improvement in communication facilities and organizational skill in using them.

The third aspect of structure involved in the study of marketing systems is operating structure. Effective specialization within an organization requires that activities which are functionally similar be placed together but properly coordinated with other activities. Billing by wholesaler grocers, for example, has long been routinized in a separate billing department. In more recent years the advances in mechanical equipment have made it possible to coordinate inventory control with billing, using the same set of punch cards for both functions. Designing an operating structure is a special application of sorting. As in the sorting of goods to facilitate handling, there are generally several alternative schemes for classifying activities presenting problems of choice to the market planner.

Functional specialization and the design of appropriate operating structures is a constant problem in the effective use of marketing channels. Some functions can be performed at either of two or more stages. One stage may be the best choice in terms of economy or effectiveness. Decision on the placement of a function may have to be reviewed periodically since channels do not remain static. Similar considerations

arise in the choice of channels. Some types of distributors or dealers may be equipped to perform a desired service while others may not. Often two or more channels with somewhat specialized roles are required to move a product to the consumer. The product's sponsor can maintain perspective in balancing out these various facilities by thinking in terms of a total operating system including his own sales organization and the marketing channels employed.

The dynamics of market organization pose basic problems for the marketing student and the marketing executive in a free enterprise economy. Reference has already been made to the competitive pursuit of differential advantage. One way in which a firm can gain differential advantage is by organizing the market in a way that is favorable to its own operations. This is something else than the attainment of a monopolistic position in relation to current or potential competitors. It means creating a pattern for dealing with customers or suppliers which persists because there are advantages on both sides. Offering guarantees against price declines on floor stocks is one example of market organization by the seller. Attempts to systematize the flow of orders may range from various services offered to customers or suppliers all the way to complete vertical integration. Another dynamic factor affecting the structure of markets may be generalized under the term "closure." It frequently happens that some marketing system is incomplete or out of balance in some direction. The act of supplying the missing element constitutes closure, enabling the system to handle a greater output or to operate at a new level of efficiency. The incomplete system in effect cries out for closure. To observe this need is to recognize a form of market opportunity. This is one of the primary ways in which new enterprises develop, since there may be good reasons why the missing service cannot be performed by the existing organizations which need the service. A food broker, for example, can cover a market for several accounts of moderate size in a way that the individual manufacturer would not be able to cover it for himself.

There is a certain compensating effect between closure as performed by new or supplementary marketing enterprises and changes in market organization brought about by the initiative of existing firms in the pursuit of differential advantage. The pursuit of a given form of advantage, in fact, may carry the total marketing economy out of balance in a given direction creating the need and opportunity for closure. Such an economy could never be expected to reach a state of equilibrium, although the tendency toward structural balance is one of the factors in its dynamics. Trade regulation may be embraced within this

dynamic pattern as an attempt of certain groups to organize the market to their own advantage through political means. Entering into this political struggle to determine the structure of markets are some political leaders and some administrative officials who regard themselves as representing the consumer's interests. It seems reasonable to believe that the increasing sophistication and buying skill of consumers is one of the primary forces offsetting the tendency of the free market economy to turn into something else through the working out of its inherent dynamic forces. This was the destiny foreseen for the capitalistic system by Schumpeter, even though he was one of its staunchest advocates.

The household as an organized behavior system must be given special attention in creating an analytical framework for marketing. The household is an operating entity with an assortment of goods and assets and with economic functions to perform. Once a primary production unit, the household has lost a large part of these activities to manufacturing and service enterprises. Today its economic operations are chiefly expressed through earning and spending. In the typical household there is some specialization between the husband as primary earner and the wife as chief purchasing agent for the household. It may be assumed that she becomes increasingly competent in buying as she surrenders her production activities such as canning, baking and dressmaking, and devotes more of her time and attention to shopping. She is a rational problem solver as she samples what the market has to offer in her effort to maintain a balanced inventory or assortment of goods to meet expected occasions of use. This is not an attempt to substitute Economic Woman for the discredited fiction of Economic Man. It is only intended to assert that the decision structure of consumer buying is similar to that for industrial buying. Both business executive and housewife enter the market as rational problem solvers, even though there are other aspects of personality in either case.

An adequate perspective on the household for marketing purposes must recognize several facets of its activities. It is an organized behavior system with its aspects of power, communication, and operating structure. It is the locus of forms of behavior other than instrumental or goal-seeking activities. A convenient three-way division, derived from the social sciences, recognizes instrumental, congenial, and symptomatic behavior. Congenial behavior is that kind of activity engaged in for its own sake and presumably yielding direct satisfactions. It is exemplified by the act of consumption as compared to all of the instrumental activities which prepare the way for consumption. Symptomatic behavior reflects maladjustment and is neither pleasure giving in itself nor an

efficient pursuit of goals. Symptomatic behavior is functional only to the extent that it serves as a signal to others that the individual needs help.

Some studies of consumer motivation have given increasing attention to symptomatic behavior or to the projection of symptoms of personality adjustment which might affect consumer buying. The present view is that the effort to classify individuals by personality types is less urgent for marketing than the classification of families. Four family types with characteristically different buying behavior have been suggested growing out of the distinction between the instrumental and congenial aspects of normal behavior. Even individuals who are fairly well adjusted in themselves will form a less than perfect family if not fully adapted to each other.

On the instrumental side of household behavior it would seem to be desirable that the members be well coordinated as in any other operating system. If not, they will not deliver the maximum impact in pursuit of family goals. On the congenial side it would appear desirable for the members of a household to be compatible. That means enjoying the same things, cherishing the same goals, preferring joint activities to solitary pursuits or the company of others. These two distinctions yield an obvious four-way classification. The ideal is the family that is coordinated in its instrumental activities and compatible in its congenial activities. A rather joyless household which might nevertheless be well managed and prosperous in material terms is the coordinated but incompatible household. The compatible but uncoordinated family would tend to be happy-go-lucky and irresponsible with obvious consequences for buying behavior. The household which was both uncoordinated and incompatible would usually be tottering on the brink of dissolution. It might be held together formally by scruples against divorce, by concern for children, or by the dominant power of one member over the others. This symptomology of families does not exclude an interest in the readjustment of individuals exhibiting symptomatic behavior. Such remedial action lies in the sphere of the psychiatrist and the social worker, whereas the marketer is chiefly engaged in supplying goods to families which are still functioning as operating units.

All of the discussion of consumers so far limits itself to the activities of the household puchasing agent. Actually the term consumption as it appears in marketing and economic literature nearly always means consumer buying. Some day marketing may need to look beyond the act of purchasing to a study of consumption proper. The occasion for such studies will arise out of the problems of inducing consumers to

accept innovations or the further proliferation of products to be included in the household assortment. Marketing studies at this depth will not only borrow from the social sciences but move into the realm of esthetic and ethical values. What is the use of a plethora of goods unless the buyer derives genuine satisfaction from them? What is the justification of surfeit if the acquisition of goods serves as a distraction from activities which are essential to the preservation of our culture and of the integrity of our personalities?

It has been suggested that a study of consumption might begin with the problem of choice in the presence of abundance. The scarce element then is the time or capacity for enjoyment. The bookworm confronted with the thousands of volumes available in a great library must choose in the face of this type of limitation.

The name hedonomics would appear to be appropriate for this field of study suggesting the management of the capacity to enjoy. Among the problems for hedonomics is the pleasure derived from the repetition of a familiar experience as compared with the enjoyment of a novel experience or an old experience with some novel element. Another is the problem of direct experience versus symbolic experience, with the advantages of intensity on the one hand and on the other the possibility of embracing a greater range of possible ideas and sensations by relying on symbolic representations. Extensive basic research will probably be necessary before hedonomics can be put to work in marketing or for the enrichment of human life through other channels.

This paper barely suffices to sketch the analytical framework for marketing. It leaves out much of the area of executive decision-making in marketing on such matters as the weighing of uncertainties and the acceptance of risk in the commitment of resources. It leaves out market planning which is rapidly becoming a systematic discipline centering in the possibilities for economizing time and space as well as resources. It leaves out all but the most casual references to advertising and demand formation. Advertising is certainly one of the most difficult of marketing functions to embrace within a single analytical framework. It largely ignores the developing technology of physical distribution. Hopefully what it does accomplish is to show how the essentially economic problems of marketing may yield to a more comprehensive approach drawing on the basic social sciences for techniques and enriched perspective.

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THEODORE N. BECKMAN*

The Evolution of Marketing and Marketing Concepts

The assigned topic is obviously two-pronged. It calls for a discussion of the evolution of marketing as well as for a treatment of the development of marketing concepts.

First Part Too Broad for Brief Treatment.—The first part of the assigned topic affords one tremendous latitude. It suggests at once the possibility of chronicling the development of marketing in terms of volume of goods marketed, volume of trade, types and variety of products, functions performed, institutions performing the marketing task, operational methods and techniques, and the impact of external influences of a social or governmental character.

Any one of these, as well as some others not mentioned, would furnish ample subject matter for a comprehensive discussion. This is apparent, for example, from the mere listing of the retailing institutions from the trading post to the general store, door to door peddler, specialty store, department store, chain store, mail order house, supermarket, discount house, and the type of store catering only to certain occupational segments of the population like the "Fame" type of retail establishment. On the wholesale level the development has been even more varied. In connection with the 40th National Conference of the American Marketing Association held last June and as part of the "Wholesaling Sesquicentennial" session, Professor Milan R. Karas of the University of Cincinnati brought this out in part in his paper on the "Historical Highlights in the Development of Wholesaling in the United States."

Similarly, the development of marketing from an operational viewpoint is a subject that would fill volumes. In the department store field alone, Mr. B. Earl Puckett, Chairman of the Board of Allied Stores Corporation, in a lecture delivered at Harvard on October 10, 1957, listed ten significant developments that have taken place for the most

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part in the single decade of the 1920's in the forward operational march from the personal and haphazard to the scientific—and obviously progress in that area did not stop then. A similar story was told by Dr. Herman C. Nolen, President of McKesson & Robbins, Inc., and Dr. Rudolf L. Treuenfels, Executive Vice-President, National-American Wholesale Grocers Association, in their discussion at the "Wholesaling Sesquicentennial" of "The Modern Wholesaler and His Adjustment to a Changing Economy."

From the examples just cited it may be rightly inferred that marketing has been extremely dynamic in terms of the institutions performing the task and the way in which it has been performed. This has also been true of the guiding policies and many other aspects. In recent years much attention has been given to automation, operations research, attempts at quantifying information on marketing functions and resulting costs, and on other means of enhancing efficiency. In these and many other areas there is constant search and research by scholars for the truth in order that the marketing job be well done and thus contribute its full share to the accomplishment of the major objectives of our economy.

Emphasis on Marketing Concepts.—More recent efforts have been devoted, however, by some leaders in the field, both academicians and practitioners, to a rethinking and theoretical reevaluation of the nature of marketing, its place in our economy, and ways in which it can be made more effective and more efficient. This has resulted in a restatement of many marketing concepts and in the redevelopment of a few new ones—new at least to the extent of application, orientation, or forceful and coherent expression of ideas that may have long been dormant in the minds of some thinkers. Thus the limited time available might best be utilized in discussing a few of these so-called new or restated concepts that are deemed more or less basic, related to one another, and perhaps somewhat misunderstood or at least provocative in nature.

In this paper there is a serious departure from the orthodox scholarly presentation, which is replete with footnote references. In the company of original thinkers participating in this program, to the extent that originality exists, there should be little need for support or precedent for the statements made. Furthermore, such procedure prevents a cluttering up of the material and encourages iconoclasticism.

Marketing Is an Integral Part of Economics.—It might not be inappropriate at this juncture to point out most emphatically that marketing is an integral part of economics. Too often sight is lost of this

elemental truth, so that students in each field tend to proceed independently without benefit of thought in the other and to the detriment of both. In many universities this has resulted in a separation of the two areas, intellectually as well as administratively.

Recognition not only of the interdependence of the two but that marketing is in reality but an important part of economics should have far reaching consequences. For one thing, it should be possible for the marketing student to profit from the application of economic theory to the extent that it is relevant and appropriate, without necessarily having to develop separate theory except where it is needed to improve, clarify, or supplement theoretical thinking in economics.

Second, this means that, like our economic system as a whole, marketing is necessarily governed by the same basic philosophy that underlies the relationship of government and *all* private competitive business enterprise. That philosophy, in short, has as its primary objectives the maintenance and promotion of competition on the one hand and the removal or prevention of unfairness in competition on the other.

By the same token, all those engaged in marketing must operate within the same legal context or environment that affects or surrounds all private competitive economic activity. This context consists for the most part of what is commonly referred to as antitrust legislation and its enforcement, which will no doubt be discussed most capably by Dean Grether in his paper on "Marketing Concepts and Public Policy." The chief purpose in mentioning it here is to point out that all of this is aimed largely at the regulation or control of business activity *in the market place* and hence is of primary concern to marketing. Illustrative are all matters relating to agreements and conspiracies in restraint of *trade,* unfair methods of competition, price discrimination, access to the market involving availability and choice of customers and suppliers, classification of customers for purposes of differentiated treatment in price or in services, exclusive dealings, tying sales contracts, and industry *trade* practices. Yet many students of marketing have either abdicated from this area of study or given it scant attention.

Again, marketing, like all economic activity, is subject to the same general public policies, which may be in line with the basic philosophy referred to above or may seriously deviate from it. Illustrative are the declared public policies to *support the prices* of certain agricultural products at specified levels, to *maintain full employment,* to *maintain economic stability* with present emphasis on antiinflationary effort, and, through its recent enactment of the Small Business Act of 1958, to preserve and *promote the welfare of independent small business enterprice.*

4 CONFERENCE OF MARKETING TEACHERS

Finally, marketing students must have a clear idea of the nature of competition, which is conceived variously as pure, perfect, monopolistic, oligopolistic imperfect, workable, effective, or normal, depending upon (1) the model used for theoretical analysis and (2) the degree of reality it is desired to portray. Especially is it important fully to understand the nature of workable competition and the factors that determine its extent in any given situation, because that is the kind of competition generally encountered in the market place.

Concept of Marketing and the "Marketing Concept."—It is fairly agreed among authorities in the general field that marketing embraces all activities or functions having to do with the exchange of title to goods (buying and selling), their physical distribution (transportation and storage), and the facilitating of the entire process (financing, standardizing, risk taking, and marketing information including research). In his discussion in the 1957 Marketing Symposium at the University of Illinois, Roland S. Vaile pretty well accepted some such concept of the term "marketing," although he seemed to favor "more specific inclusion" of services and rightly pointed out that not all of transportation or all of storage is marketing. For that matter, the same applies to each of the marketing functions other than buying, selling, and marketing information. Professor Vaile's comments on this score merely underlined what is believed to have been the correct interpretation all along, often expressed by some such statement as the following: One of the marketing functions is transportation but transportation (meaning all of it) is not a marketing function.

This concept of marketing must not be confused with the "marketing concept" developed and adopted in the past two or three years by a number of leading business concerns in the manufacturing field, to which much publicity was given and on which a number of articles appeared in the trade press, mainly under the leadership of Barrington Associates. The so-called new "marketing concept" adopted by management involves a shift from a "sales management" concept and a realization that there are many areas in a business organization that should be coordinated in some way under the leadership of an official with broader responsibilities than those devolved upon a sales manager. Thus came into being the Vice-President in Charge of Marketing, with the function, in a line but mostly in a staff capacity, of coordinating all selling and related activities like advertising, sales promotion, customer and public relations, marketing research, and even helping in product development and design.

It is not difficult to understand this development. When, after World

War I, the supply of many products began to catch up with the demand and the need for greater selling effort was indicated, more attention was given to such effort and the era of sales management was launched with a full-fledged sales department finding a respectable place on the organization chart. As this proved insufficient, advertising began to loom larger and the advertising department attained stature. To bridge the gap between the two, there developed the sales promotion department. Despite all these, sales were not forthcoming in the 1930's, hence there was need for more emphasis on research, which gave rise to one or more marketing or consumer research departments. Very often all of these departments functioned independently as if they were separate entities. To top it off, at times products were developed that could not be marketed profitably in sufficient volume. What is difficult to understand, then, is why such a concept was not adopted sooner.

Since the "marketing concept" has been popularized, there has developed a tendency to endow it with unusual and sometimes esoteric characteristics. For example, it is sometimes claimed that while sales managers are product-minded, marketing managers are customer-minded and hence place more emphasis on what customers want and have those wants translated into products that will best satisfy them. Somehow it is hard to believe that sales managers of such large firms were so narrow-minded as to overlook this basic fact. Most important is the fallacious thinking that the marketing manager deals with all "phases of distribution." If the term "distribution" is here used as synonymous with marketing, which is obviously the intent, there is nothing further from the truth. All that the "marketing concept" so widely heralded by leading business concerns deals with, is the selling function and closely related activities, and possibly also the marketing information function. It does not embrace any of the remaining six functions listed at the beginning of this section. This obviously raises a most embarrassing question: Why is marketing treated academically one way and in business in an entirely different manner? Constructively, it should be asked: How is the gap in thinking to be explained and what can be done at least to narrow it? These questions are extremely provocative and deserve most serious consideration.

Concept of a Market.—The market is the medium through which marketing takes place insofar at least as the functions of exchange (buying and selling) are concerned. Yet there is much confusion as to what constitutes a market. Thus the theoretical economist usually discusses the three types of markets that exist under pure competition, monopoly, and imperfect competition; sometimes also under oligopoly.

For this purpose the term "market" is used in the sense of a combination of forces which determines prices and exchange opportunity. As an economist, the marketing student, too, thinks of the market as a sphere within which price-making forces operate. He also thinks of the market in several other ways, as a localized or other geographic area, as an organization of individuals whose bids and offers reflect the supply and demand situation and thus establish prices, as an opportunity to buy or sell depending upon whether it is a good or bad market generally or for a specific product, as a wholesale or retail market, as a consumer or industrial market, or as a combination of a number of factors as in determining market potentials.

At the same time it is of greatest importance to have the concept of a market clarified, if for no other reason than because it is basic to a determination of the existence of a competitive environment for marketing operations. In all matters of litigation involving this concept reference is made to the "relevant market" or the "area of effective competition" in which the defendant or respondent operates. For such a purpose it would seem that the term "market" must be examined from at least four different angles, separately and in combination.

First is the nature of the product or products involved. Whether a given product has a relevant market of its own or is part of a relevant market which includes many other similar products depends upon whether such products are *readily* substitutable in line with the principle of cross-elasticity of demand in the trade. It is not enough that they be functionally interchangeable under unusual conditions; they must be readily interchangeable for the same purpose or function.[1]

Second is the use made of the product, for a given product may have two or more types of markets from this point of view. Automotive equipment and supplies may be sold to the industrial market for use as original equipment or for replacement purposes in the consumer market, known as the after-market.[2] Piece goods can be sold to industrial users like cutters-up who make finished garments from them, or to wholesalers or retailers for final resale to ultimate consumers who make their own garments. A manufacturer of such piece goods usually serves both types of markets and each is relevant in its own sphere. One may even go further in this regard and divide the industrial market, for example, according to the type of user of the product into general industry, mining, and the railroad markets.

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[1] *United States v. E. I. du Pont de Nemours and Company* (S.Ct., 1956; 351 U.S. 377)

[2] See *United States v. E. I. du Pont de Nemours and Company, et al.* (S.Ct., 1957; 126 F. Supp. 27 and 235)

A third angle to be considered is the geographic delineation of the relevant market. In the "cellophane" case the Court stated that "the market geographically is nationwide." At the other extreme,[3] the Court stated that "The relevant market may be highly particularized, both geographically and in terms of the part of an industry involved." Thus the relevant market in that case was limited to the City of Chicago. In a third case[4] the relevant market was ruled to be a 45-city area. In still other cases it was ruled to cover a 7-state area and an 11-state area, respectively. Now attempts are being made to confine the market to the business of a given company in a restricted geographic locality.

This matter of geographic area of effective competition is interrelated with the fourth angle or viewpoint, namely, *levels* of competition. Obviously, the relevant market for wholesalers would be different from that for retailers, since the normal trading areas of the two differ substantially.

It is regrettable that all that has been done here in the discussion of the market concept was to point out the confusion and to raise questions. Obviously, there is need for serious work on this most important concept.

Concepts of a Product and Production and Implications for Marketing.—Contrary to common usage, a *product* is not merely or necessarily a physical thing but consists, in reality, of a bundle of utilities or satisfactions derived from its use or consumption. Despite a widely used slogan by a well-known and progressive business concern, *progress* is not a marketable product contemplated by this concept. What is contemplated is what is actually purchased by the user or consumer. For example, when an ultimate consumer buys a television set at a given store, he does not purchase merely an assembly of wires, tubes, wood or plastic panels, and the other hundreds of physical items that make up the set, nor even the aesthetic qualities of the finished apparatus. What he actually buys is an aggregate of satisfactions to be derived from the set from the time title is transferred, under credit terms and conditions that are suitable, the article is delivered when wanted and properly placed or installed if necessary, begins to operate as a functioning instrument under a guarantee that it will continue so to function, and then performs over an expected normal span of years in satisfactory fashion.

Who, then, made this product—the television set—that was purchased by the consumer? Certainly not the manufacturers alone who

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[3] *United States v. Yellow Cab Co.* (332 U.S. 218, 1947)

[4] *United States v. National City Lines, Inc.*, (CCA–7, 1951)

only made, developed, and assembled the physical thing and thereby created what is known as form utility. Obviously, all marketing organizations along the channels of trade and ending with the retail outlets contributed much that made up the final product. Is there any wonder that economists generally consider *production* as the creation of economic values or utilities? These values may be in the nature of form utility (as in manufacturing, farming, and mining) or in the nature of place, time, and possession utilities (as mainly in marketing). Under this concept of production the entire labor force is included and all useful work is productive, unlike the concepts along these lines held by the Physiocrats and even by our classical economists. This newer concept of production gives a new insight into factors of production and a new look at the functioning of our economic system.

To marketing, the concept of a product discussed above as well as the concept of production are of primary significance. It means that marketing is an integral part of production, that persons engaged in marketing are productive in the true sense, and that what is being done in the marketing process forms an essential part of the product that is bought for use or consumption.

Concept of Value Added by Marketing.—From the discussion immediately preceding it is quite apparent that economic values are created all along the way from the stage of bringing raw materials into being until a final product—in the sense in which it is properly conceived—reaches its ultimate destination. These values are created when various scarce resources are converted or *transformed* into increasingly satisfying states by the addition of *form* utility. Then they are created through *transfers* in ownership, place, and time during the various stages of manufacture or other processing and in the movement of goods in finished form through the channels of trade. These transfers or translations between persons or firms, between places, and between time periods give rise to what are commonly known as *possession, place,* and *time* utilities. These utilities thus created in the marketing process are of the same essence *economically* as are those having to do with the transformation of raw materials into semimanufactured goods and finished products.

The "Value Added" concept has long been used by the Census of Manufactures which calculates it by subtracting from the value of shipments the cost of materials supplies, containers, fuel, purchased electric energy, and contract work. It is a means of measuring what was actually contributed in economic values by a given manufacturing concern, establishment, or industry. It is contended that the same type of meas-

urement should be applied to marketing in order properly to ascertain its contribution to the economy as a whole, by segments (wholesale, retail, etc.), by lines of trade, by firms, and by individual places of business. Just exactly how this is to be measured should be determined in part by what is being done in measuring value added by manufacture, for the sake of comparability, and in part by the results obtained through a study of the subject now in progress by the Census of Business with respect to wholesalers, to be followed by one with reference to retailers. There are a number of potent reasons for applying the Value Added concept to marketing, stated briefly as follows:

1. Value Added provides the best available *absolute* yardstick for measuring the economic values created in the distribution process, just as it does now in measuring the values created in the manufacturing process.
2. The Value Added concept presents data *without any duplication* that results from the use of sales or gross receipts figures. This is a major reason why it has been applied to manufacturing statistics and is just as good a reason for applying it to data on marketing volume.
3. Value Added provides a measure by which proper *comparisons* can be made between the marketing sector of our economy and any other sector.
4. Value Added places marketing costs in their correct perspective, as being the price paid for the values received instead of the one-sided present approach often used.
5. The availability of Value Added by Distribution data would pave the way for and greatly encourage scientific studies into the efficiency and productivity of the marketing process or any part thereof.
6. In providing the best measurement of output for an establishment, business enterprise, kind of business, or industry and trade, official data properly collected and published would provide a basis for comparison of results from any individual study of Value Added and the numerator in the equation for the determination of either efficiency or productivity.
7. Value Added presents business management a new and more positive approach to marketing activities.
8. Value Added tends to emphasize the productive character of marketing and thus helps to correct the erroneous conception held by many, though quite contrary to economists' thinking, that only certain kinds or types of economic activity are productive, just as has been the conception in the Middle Ages or even in the days of Adam Smith—father of classical economics. Anything that contributes to true knowledge should be encouraged.
9. Value Added by Marketing data published by the Bureau of the Census would provide facts for economists and statisticians in the Office of Business Economics of the U. S. Department of Commerce for the computation of Gross National Product and reduce the area in which sheer estimates must be made.
10. Value Added data should be helpful in evaluating the merits of various forms of taxation and their use could be instrumental in promoting more equitable tax incidence. In fact, they could furnish the very basis for taxation and avoid some pyramiding and duplication in taxes.

From the standpoint of the marketing student and practitioner alike, one of the great benefits to be derived from the application of the Value Added concept to the field of marketing is that of improved public relations. As in manufacturing, it would tend to shift some of the emphasis from costs and wastes to value added and from a negative to a positive and constructive approach to the solution of marketing problems. It is interesting to note that the emphasis on marketing costs, on the assumption that they are too high and should be reduced, is not new. As far back as 1913 a series of papers was published in book form by the American Academy of Political and Social Science under the title "Reducing the Cost of Food Distribution." Many of these papers were written some few years prior to the year of publication or referred to data for the year 1910 or thereabouts. Even then many were bitterly complaining about the high costs of distributing farm products and groceries and great hopes were held out for the elimination of the wholesaler. Unfortunately, little progress in thinking has been recorded in this respect for the multitude. Obviously, if marketing is to be regarded as apart from production and hence unproductive, whatever the cost of doing it would be deemed too high. There is need for a reorientation in our thinking with the help of the Value Added concept and its proper application.

Marketing, as all of us know, is of tremendous importance to the economy of the United States. Aside from the fact that there would be little manufacturing and other types of so-called production without a proper and adequate marketing system, the importance of marketing can be gleaned from the fact that about 60% of all business firms (total business population) consists of enterprises engaged primarily in distribution and that it accounts for the employment of at least 25% of our total civilian labor force. Furthermore, in the several years ahead marketing should become of even greater relative significance. If we are to reach a Gross National Product of around $600 billion a few years hence, as variously predicted, personal consumption will have to be increased by about 50%. This will of necessity increase the role of marketing and the proportion of the price of goods and services going to that segment of the economy. Failure to reorientate our thinking by the Value Added route would result in increasing criticism of marketing as it accounts for a larger and larger share of the consumer's expenditures even though it, at the same time, contributes a larger and larger part to Gross National Product.

Concept of Value Analysis.—This concept must be distinguished from that of Value Added, since it relates to a newly developed tech-

nique (not a new idea) used in connection with purchasing by some of our leading manufacturers. It is an organized effort at analysis aimed at securing the greatest possible value for purchase expenditures, by making the proper recommendations for action by the purchasing agent, and is concerned with possible elimination of product costs of a major character from goods bought. The basic approach to this is functional, by inquiring into what the product *does* or is expected to do rather than into what it is, and a breaking down of the product into functional areas to determine what part is mechanical, electrical, labor, overhead, packaging, etc. Thus the concept of a product in value analysis work is not unlike that previously discussed in this paper.[5] This alone justifies its inclusion here, as well as the desire to prevent confusion of this term with Value Added.

Conclusion.—As we keep on rethinking and theoretically reevaluating the nature of marketing in all of its aspects, many concepts long held as inviolate will necessarily be modified or perhaps even abandoned in favor of others more sound in the light of logic or more complete factual information. Even now, for example, there are murmurs about the concept of "convenience goods" and about our understanding of the true role of the consumer. Some of the criticism of long accepted concepts may be well founded and some may issue from misinterpretation. Only continued constructive inquiry will determine that. Such is the road in any evolutionary growth of a science.

[5] For a discussion of the subject, see Stuart F. Heinritz, *Purchasing* (2d. ed.; New York: Prentice Hall, Inc., 1951), pp. 459–67; Howard T. Lewis and W. B. England, *Procurement: Principles and Cases* (3d. ed.; Homewood, Ill.: Richard D. Irwin, Inc., 1957), pp. 172–76, 223–35; and R. E. Fountain, *The Importance of Value Analysis* (New York: American Management Association, 1956).

[35]

Excerpt from George Fisk (ed.), *Marketing Management Technology as a Social Process*, 3–29.

CHAPTER 1

The Marketing Concept: A Déjà Vu

STANLEY C. HOLLANDER

THE RECEIVED DOCTRINE

Most current teachers and practitioners of marketing seem to believe that something called "the marketing concept" emerged in the 1950s (or later). Moreover, and more importantly, they believe that it marked a radical transformation of U.S. business rather than simply being a new label for long-established practices. This viewpoint is expressed in almost all introductory texts that serve as primary sources of knowledge and attitudes for marketing students. We are concerned here with whether business has indeed gone through the "production," "sales," and "marketing concept" steps as conventionally described. Table 1.1 reflects perspectives found in a convenience sample of 25 general marketing and marketing management textbooks with copyright dates from 1980 through 1984. The sample includes many widely known as well as some less popular works. The summary in Table 1.1 is, of course, rough and it does ignore citations of exception and reservations, but it provides a generally fair sense of the prevailing textual account of how U.S. marketing has changed over time.

Those textbook histories, as shown in the table, differ somewhat in details, dating and terminology. Yet with few exceptions [for example, Kotler (1984) and to some degree Boone and Kurtz (1983)] they depict a drastic change in marketing after about 1950. Most adhere to what may be considered the standard chronology:

1. Up until about 1930 (or in a few citations up to 1920), business focused upon production to satisfy shortages and an intense hunger for goods. In a variant approach, industry is seen through the nineteenth and probably into the early

TABLE 1.1 Changes in Business Orientation as Presented in Marketing Textbooks, 1980–84

1910	Production	*Production	Production	Production	Production	Production	Production	Production	Sales	Production	Production undated ... undated Sales	Production
*1915												
1920	Sales					Sales	Sales					Distribution
1925					Sales							
1930			Sales	Sales				Mixed	Sales Modified by War and Depression	Sales	Mktg < Mktg[a] Concept[e]	Sales
1935												
1940							World War II	World War II		World War II	World War II	
1945												Managerial Mktg Consumer Orientation
1950		Mktg Concept	Mktg Concept	Mktg PCD	Mktg Concept	Mktg Concept	Mktg Concept	Mktg Concept (except Korean War)	Mktg Concept	Mktg Concept	Mktg Concept	
1955												
1960	Mktg Concept			Mktg Control /Mktg Co.								
1965												

McDaniel (1982) pp.9–11	Markin (1982) pp.24ff	Stanton (1981) p.11E Zikmund and D'Amico (1984) p.19 Kinnear and Bernhardt (1983) pp.13–16	Berman and Evans (1982) Diamond and Pintel (1980) pp.11–14 Enis (1980) pp.44–51 McCarthy and Perrault (1984) pp.35–36	Pride and Ferrell (1980) pp.14–16

Rachman and Romano (1980) pp.13–15	Nickels (1984) pp.54–62	Hartley (1984) pp.17–18	Russ and Kirk-patrick (1982) pp.9–10	Cunning-ham and Cunning-ham (1981) pp. 14–17 Gaedke and Tootelian (1982) Schewe and Smith (1983) pp.13–14 Schoell and Ivy (1982) pp.15–17	Boone and Kurtz (1980) pp.13–15	Lazer and Culley (1983) p.23

Continued overleaf

TABLE 1.1 *(continued)*

Notes: Some of the above authors cite some exceptions and approximations. Much of the dating is approximate. Authors in many instances say, "The marketing concept [emerged] [was adopted] [spread] [etc.] in the 1950s." Most authors also discuss subsequent modification of the marketing concept or state that a [social] [broadened] marketing concept [emerged] [prevailed] in the [1960s] [1970s]. PCD, planning/concept/department.

[a]Boone and Kurtz (1980) recognize considerable marketing in the years 1932–42 but regard it as an extension of a sales orientation. They see it as subordinate to and subsequent to production in the firm, and substantially different from the marketing concept.

Texts Without Chronologies

Cundiff, Still, and Giovanni (1980, ch. 1, "The Emergence of Marketing") note that recent environmental, competitive, and technological changes have made movement toward the marketing concept increasingly relevant.

Dalrymple and Parson (1980, p. 7). "One of the most amazing things about the marketing concept is that it has been an effective management tool for almost 30 years" that is, since around 1950).

Neidell (1983): "Over the past three decades since General Electric became the first company to widely publicize the marketing concept. . . ."

Runyon (1982, p. 205): "This growth [in marketing research following World War II] was stimulated by the emergence of the marketing concept as a fundamental philosophy of product competition."

But Somewhat at Variance

Kotler (1984, p. 20): "Although the marketing concept has a long history, its central tenets did not fully crystalize until the mid-1950s."

twentieth century as trying to move a low-level economy with little discretionary purchasing power away from concentration upon basic food, clothing, and shelter (Kinnear and Bernhard 1983; also see Tosdal 1933).

2. The collapse of consumer demand during the Great Depression of the 1930s forced a shift from a "production era" to a "sales era." During the latter period, industry did not consider consumer desires but used hard, aggressive, high-pressure sales methods to move its output.

3a. After 1950 industry embraced the "marketing concept." That is a vague term but it implies close attention to consumer or user desires, integration or coordination of all of the firm's marketing-related activities with appropriate planning, and a focus upon profit rather than sales volume. The literature has gone on to credit marketing executives with numerous other attributes that distinguish them from sales executives (Kotler 1977; Vizza, Chambers, and Cook 1967). The marketer regards credit, transportation, and packaging as customer services and sales opportunities rather than as simply product requisites or necessary evils, and is interested in segmenting the market. The marketer's advertising stresses customer benefits, not product features or the seller's ego. Marketing involves emphasis on analysis and planning.

3b. Authors who rely upon the experience of the Pillsbury Company as detailed in a frequently quoted article (Keith 1960) distinguish between the 1950s and the 1960s. The 1950s are considered "the marketing department era," when companies invested substantially in marketing activities and converted sales, advertising, and related departments into marketing departments. But the 1960s are seen by this group as the period when a marketing philosophy permeated corporate management and decision making.

3c. Some texts depict a shift in corporate attitudes during the last decade to take into account broader social responsibilities. The 1980s are sometimes described as the era of "social marketing."

As the page citations in Table 1.1 indicate, most of these chronologies are presented as introductory material. Textbook presentation can easily be both oversimplified and platitudinous. By definition, platitudes are generally accepted beliefs. If the statement that corporate orientation changed from a production to a sales focus in the 1930s and to a marketing focus in the 1950s or 1960s is a cliché, it represents what people think did happen.

Belief in the two historical transformations has also received acceptance in more advanced academic circles. Bartels's *History of Marketing Thought* (1976) refers to the "marketing concept" as a contribution of the 1950s (pp. 177, 228). Blackwell and Talarzyk (1983, p. 8) speak of "the marketing concept which emerged in the 1960s marketing literature." The belief in the 1950 shift is also voiced in Myers, Massy, and Greyser's American Marketing Association-sponsored assessment of the sources of marketing thought and science (1980, pp. 13, 24).

Consequently, we are justified in accepting the "standard versions" referred to earlier as a falsifiable hypothesis about the process of change in business

management philosophy and in searching for contradictory evidence. The now-standard chronology deals with large-scale trends in U.S. business, and thus cannot be either proven or disproven by citing one or a few exceptions. Instead, we must turn to what limited macroscopic evidence is available and to the accumulation of numerous more or less "representative" cases to judge how well the chronology fits.

This approach warrants a caveat. The evidence cited on some macromarketing topics, such as the general nature of the economy from 1850 to 1890 to 1940, is not selective. But part of the discussion of some of the other topics is. I deliberately sought out reports and citations of companies that were using market research or that had developed effective means for coordinating marketing functions. Moreover, the literature from which these examples are drawn was itself selective. Authors and publishers were (and are) naturally more interested in the new and successful than in the stale and declining business methods. Yet, I think the names of the companies that were using market-oriented approaches before 1940 add up to what would have been most of the consumer goods sector (and some of the industrial goods sector) or a prewar *Fortune 500* list. In all of the reading that I did, only a fraction of which is cited in References,[1] I came across only two cases of conscious attempts by past businesspeople to alienate customers or to ignore their desires. With regard to one incident, Reavis Cox often remarked that Commodore Vanderbilt's statement, "The public be damned," was a response to a reporter's importunate inquiry during the small hours of the morning. The other, Henry Ford's decision to offer only black cars, was both idiosyncratic and enormously helpful to his competition, General Motors.

SOME PROBLEMS OF FIT

A historical review indicates several points of divergence between the hypothesized standard and the actual business scene.

The Economic Climate

The first half of the century included two war periods, when demand far outran supply, and the Great Depression, during which demand shriveled. But most of it seems to have been a time of frantic buying.

Personal saving, putting aside the contrasting war and crash years, remained remarkably constant at about 10 to 10.5 percent of personal income (Goldsmith 1955, pp. 73–88, 155–57). The figure contrasts with post-World War II rates of about 6.5 to 9.5 percent (U.S. Bureau of the Census 1982, p. 428). This suggests that marketing required more effort than now, a view that is substantiated further by evidence of price trends from 1890 on (U.S. Bureau of the Census 1975).

In spite of the lower propensity to consume, people purchased far more than minimal food, clothing, and shelter. Cox (1949) concludes that from 1860 on, U.S. consumers generally enjoyed a growing discretionary margin above basic food, clothing, and shelter costs.

Marketing Education and Professionalization

Marketing courses appeared in U.S. colleges and universities in the early years of the century, and they flourished after 1920 (Bartels 1976; Beckman, Maynard, and Davidson 1957, p. 12). They were preceded or accompanied by growing marketing employment and publication and by the formation of professional associations in marketing.

The proliferation of marketing-related organizations is indicated in Table 1.2, which shows the dates cited by some current associations for either their own establishment or the birth of the societies from which they have evolved. Undoubtedly, many of these had quite limited memberships in the early years. However, in judging the significance of these fledgling groups, allowance must be made for the smaller absolute size of the economy, the greater role of small business, and the concomitant relatively smaller number of staff specialists. The Associated Advertising Clubs of America, founded in 1905, had more than 15,000 members by 1916 (Schudson 1984).

There were other marketing-interested organizations as well. By 1931 the Society of Industrial Engineers included a Distribution Research Committee and a Sales Managers Group (''Summary of the 18th National Convention'' 1931). A number of salesmen's organizations were formed in the late nineteenth century and apparently attracted substantial membership (Hollander 1964).

The volume of marketing-related books and monographs during the early years of the century was substantial, as shown by Table 1.3. The rows should

TABLE 1.2 Founding Dates of Some Currently Existing Marketing-Related Associations or Their Antecedents

Outdoor Advertising Association	1891
Advertising Club of New York	1906
Association of National Advertisers	1910
Promotion Marketing Association of America	1911
Newspaper Advertising Association	1913
American Marketing Association	1915
Bank Marketing Association	1915
American Association of Advertising Agencies	1917
Direct Marketing Association	1917
Sales and Marketing Executives International	1936
Advertising Research Foundation	1936

Source: Encyclopedia of Associations 1985 (Detroit: Gale Research, 1984).

not be added horizontally to derive totals for the entire period because of the slight possibility of some duplication of listings and because the criteria for listing changed with the 1928–32 volume.

The sheer number and magnitude of marketing activities and institutions, even before 1950, suggest that there must have been many people in contact with, and sensitive to, consumer markets.

Market Orientation

Within the context of a dynamic, even though at times troubled, economy, the years prior to 1950 (or really those prior to 1940 and World War II) saw acceptance and adoption of many aspects of the marketing concept—interest in and interaction with consumers; product planning to meet customer pereferences; integration of promotional, customer service, and merchandising functions; and (probably to a lesser degree) employment of a profit rather than a volume criterion.

As early as the second half of the nineteenth century, large manufacturing firms had developed continuous process methods of production or that were handling perishables integrated forward to get closer to the market. They developed extensive branch house systems to service clearly defined compact territories. Branch house personnel were responsible for local sales. They also telegraphed headquarters information about competition, demand, sales, and inventory for use in coordinating production and distribution with market opportunities. The list includes such firms as American Tobacco, Diamond Match, Quaker Oats, Washburn-Crosby (General Mills), Borden, Proctor & Gamble, and Swift and Armour (Chandler 1977, pp. 287–314).

This forward integration suggests strong efforts in coordinating marketing and nonmarketing functions. Moreover, there were exceptions to the use of jobbers. Many manufacturers sold directly to the blossoming mass retailers, such as the mail order houses and department stores, and Eastman Kodak ultimately established its own chain of retail stores. It seems unlikely, whether they worked through jobbers or not, that successful, intelligent businesspeople could have remained oblivious to market desires. Product and other management decisions must have rested, Tosdal's words (1950), "on intelligent guesses, based on experience, as to what the public really desired." Perhaps sometimes the executive guess was wrong, but the aim was commendable.

Manufacturers of more complex, technologically advanced products such as sewing machines, automated business machines, and the like moved even closer to the market and sold directly to users. In at least some companies, such as John Deere and General Electric, feedback information from the branch houses strongly influenced product design (Broehl 1984, pp. 174–92; Chandler 1977, pp. 287–314, 424–31).

Market orientations also appeared in other, less "basic" industries. For example, a careful student of the silverware trade has written of the early years

TABLE 1.3 Number of Book and Pamphlet Titles Listed Under Selected Marketing-Related Subject Headings in Selected Volumes of the *United States Catalog*

	1912	*1912–17*	*1918–21*	*1921–24*	*1924–25*	*1925–26*	*1927*	*1928–32*	*1933–37*	*1938–42*
Advertising	71	125	73	72	21	70	36	175	157	150
Marketing	3	13	7	15	4	19	22	53	43	52
Marketing Research	—	—	—	—	—	—	—	2	9	3
Marketing Surveys	—	—	—	—	—	—	—	3	9	11
Marketing, Cooperative	—	—	7	8	9	8	2	12	5	6
Salesmanship	48	108	60	62	28	50	23	101	96	116
Merchandising	—	3	2	2	1	2	2	9	5	5
Retailing/Retail Trade	4	37	26	41	16	23	11	94	74	85
Wholesale	4	1	3	3	1	1	—	—	8	4

Source: United States Catalog: Books in Print. 4th ed. (New York: H. W. Wilson, 1928). 3d ed. (Minneapolis: H. W. Wilson, 1912); 2d ed. (Minneapolis, 1912); lst ed. (Minneapolis:1899). Supplements to the United States Catalog, *Cumulative Book Index*, annual 1924–1927; cumulative: 1928–1932, 1921–1924, 1918–1921, 1912–17; annual: 1906–1910; cummulative: 1902–1905. After 1933, issued as: *Cummulative Book Index: A List of Books in the English Language*. (New York: H. W. Wilson, 1933—.).

of this century: "The art of merchandising was being born and sales campaigns were launched with verve and imagination, and keen insight into the whims of consumer demand. The industry explored with enthusiasm the meaning of the new phrases, 'market appeal', 'buying motives', 'brand policy'" (Gibbs 1943).

The United States was tardy, say, in comparison with Great Britain, in developing a system of traveling salesmanship. After 1850, however, following improvements in passenger transportation, manufacturers of apparel, hardware, and other consumer goods began sending salesmen out to call on the trade. One estimate is that 100,000 salesmen were on the road by 1882–85 and 300,000 in 1903. These figures probably were exaggerations, but the Census enumerations of 59,000 in 1890 and 93,000 in 1900 may well have been undercounts (Hollander 1964; also see Atherton 1947; Marburg 1948). Selling and salesmanship, of course, are not tantamount to marketing, but the growth of sales forces, even before 1900, does indicate the way in which firms reached out to their customers and competed for business.

The accolade for an early market orientation, however, might well go to a heterogeneous group of industries and firms that did not try merely to sense their markets, but rather literally created them. Some members of this group, such as the railroads, are not usually praised for market acumen. Yet the early transcontinental railroads actively sponsored western settlement in order to obtain agricultural production and, to a lesser extent, consumer demands for goods that would result in significant freight volume (Hazard 1977). Local streetcar companies built amusement parks, usually on the outskirts of cities, to obtain additional off-peak ridership as well as to profit from the revenues the parks themselves generated. Manufacturers of domestic, commercial, and agricultural machinery and other products conducted classes to develop users and customers.

To create customers, General Electric financed local power companies, and then in the 1920s and 1930s, many utilities sold electrical appliances to consumers at reduced prices to increase the demand for power. Curtis Publishing Company was not only a pioneer in using market research. Its editors and some of the competitors changed U.S. magazines from elitist publications that relied on voluntary submissions to manuscripts, gentlemanly editorial taste, and small readership to carefully packaged collections of commissioned and in-house-crafted articles and stories that would attract the large audiences their potential advertisers desired (Wilson 1983).

Marketing Research

The increasing professionalization of marketing and the growth of advertising agencies were associated with substantial developments in marketing research and analysis. C. C. Parlin began his market research work for Curtis Publishing Company in about 1911 (Bartels 1976, pp. 124–25, 38). By 1931, the

University of Illinois Bureau of Business Research was able to publish a 75-page annotated market research bibliography that listed probably 1,000 to 1,500 items.

It must be admitted that, by contemporary standards, much of the marketing research of the 1920s and 1930s seems cold and impersonal. The sources in the Illinois bibliography, for example, seem mainly repositories for facts and figures about markets and about the distribution of goods. Aside from an occasional study of, for instance, the returned goods problem, the annotations hardly even hint at such topics as motives and attitudes.

However, even prior to the 1930s, many large companies were doing consumer surveys and were obtaining consumer reactions to their current and potential offerings.

Starch (1923) also felt that much marketing research was too mechanistic and statistical, rather than psychological and attitudinal, but he published examples of consumer questionnaires on raisins, dentifrices, paints, fountain pens, and retail services. These questionnaires asked for product attribute evaluations and saliency ratings. Blanchard (1921), a practitioner, likened market research to medical diagnosis, a prerequisite to prescribing treatment. He said it was customary for an advertising agency that handled a large account to send skilled interviewers to obtain opinions from jobbers, retailers, and consumers before preparing the campaign. This provided a good basis for selecting copy appeals, as well as serving other marketing policy purposes, according to Converse (1927, p. 400).

The 1922 Montgomery Ward catalog said: "Our buyers have been spending part of their time visiting many of our customers in their homes. Our representatives are constantly calling upon many of you, getting your ideas, your criticisms, your suggestions." The statement at the very least showed recognition of the yet-unformulated marketing concept. Similarly, in 1917 R. H. Macy and Company engaged a full-time interviewer to question customers as to what they liked and disliked about the store (Hower 1943, p. 373). Carman and Uhl (1973), who differ from most general textbook writers, cite the early "purchasing agent of the public" philosophy of wholesalers and retailers as one indication of "pre-war marketing orientation." Bartels (1976, p. 228) and Blackwell and Talarzk (1983) also find marketing concept counterparts among retailers in, respectively, "the customer is king" philosophy of the 1920s and the close customer contact enjoyed by nineteenth-century small merchants.

Turning to manufacturers, Frey (1940, pp. 368–76) cites consumer surveys and panel projects conducted in the 1930s for General Motors, Proctor & Gamble, General Electric, Kendall Mills, Bendix, International Silver, Dennison, Westinghouse, American Safety Razor, Life Savers, General Foods, Swift, and Beechnut Packing Company. In the 1920s, Corning Glass interviewed 3,448 housewives to find out what Pyrexware items they used most and why; Gorton Pew Fisheries Ltd. asked 10,000 women what they would think of canned cod-

fish cakes and then ran a product test in 2,000 homes; while the United Hotel Corporation used surveys of businesspeople to find good communities for hotel building (Converse 1927). The advertising manager of the Kellogg Company spearheaded a cooperative magazine readership study in 1911 (Lockley 1950). Over the years, advertising agencies, both anxious to absorb a greater marketing role and pressured by their clients to do so in return for their commissions, sponsored much proprietary marketing research. N. W. Ayer's collection of market statistics for its client Nichols–Shepard in 1879 was a pioneering bit of market research.

The agency-sponsored studies ultimately included much psychologically oriented work. Hurwitz (1984, pp. 3-4) describes the alliance between advertising agencies and marketing researchers. The agencies funneled much of the research findings back to their clients and their campaigns. Pollay's careful content analysis of consumer ads appearing in large circulation magazines from the 1900s through the 1970s (1983) shows that the focus upon user benefits and other hallmarks of a "marketing concept" orientation peaked in the 1930s and have since declined markedly.

Internal Coordination

The indications are the advertising, sales, promotion, and merchandising people in industry worked together more closely than is commonly thought.[2]

The Taylor Society (now the Society for the Advancement of Management) studied a selective and possibly unrepresentative sample of about 100 companies in 1920 and 1921. It found that almost all coordinated the various marketing functions through committees, through making the other functions subordinate to, and a part of, the sales department, or by having all report to the same senior executive. A small number had specialized sales engineering units responsible for much marketing planning and budgeting (Taylor Society 1920, 1921). Among 62 corporate respondents to a 1922 study, 18 had "commercial research" departments. Half of those departments reported to the firm's sales manager, the other half to a higher executive (Weld 1922).

While the Taylor Society and Weld surveys did not identify individual respondents, coordination arrangements have been reported for some companies. Both the outbound freight and the advertising manager reported to the sales manager at U.S. Rubber Company as early as 1902. At about the same time, DuPont's sales department included both the advertising and information (that is, market intelligence) bureaus. Even earlier, about 1895, product managers at General Electric branch houses reported to higher-level product managers at headquarters. Those national managers in turn served on a sales committee along with the director of foreign sales and the director of advertising. That committee was chaired by the company vice-president (a very senior title in the days before the proliferation of vice-presidential hierarchies) who today would be

called "VP-Marketing." This committee considered "pricing, competitors' activities, market conditions, customers' needs and concerns, and the processing of major orders" (Chandler 1977, pp. 424–31).

During the 1920s, many industrial equipment companies were reported to have responded to intensified competition by, among other things, combining their selling and merchandising (that is, product planning) staffs. Apparently this did not always work out well because merchandising often became very subordinate to sales and overly devoted to short-run activities connected with prospective individual orders. Consequently, a number of companies established or reestablished merchandising as a separate function (Moore 1937). Probably such a separation was instituted at the Dennison Manufacturing Company (paper products) (Keir and Dennison 1929b).

Businessmen who made a deliberate decision to separate the two functions, whether well advised or not, were clearly far more sensitive to the nature of the total marketing task than the the decision-by-default-and-ignorance stereotypes depicted by the modern view of the revolutionary nature of the marketing concept.

Moreover, even though many of the general marketing books then did not discuss the coordination of marketing activities, the subject was by no means absent from the literature. The lack of consistent definitions and distinctions between such terms as "distribution," "marketing," "sales," and "merchandising" in those days (see Reilly 1929) caused some of the discussion of managerial coordination to appear in more specialized books on sales, such as Hayward (1926; also see LaLonde and Morrison 1967), and merchandising, such as Frey (1940). To some extent, coordination was also seen as a general management obligation, particularly at a time of much personal ownership–management, and was discussed in general business administration books such as Marshall (1921).

Diversification and Simplification

The simplification movements of World War I and of the 1920s provide inverse evidence of the product diversification and segmentation inherent in the conventional marketing concept. To historians, laws and corrective movements often demonstrate the existence of whatever those laws or movements were designed to correct. That is the case with the national simplification program.

Rather than seeking only maximum physical output prior to 1930, U.S. industry often produced an enormous *variety* of objects. Herbert Hoover, upon becoming secretary of commerce in 1921, launched a campaign for industrial efficiency that embraced the ideas of voluntary, industry-wide standardization and simplification. This crusade continued until the end of the decade. Then the main thrusts of public and industry attention turned to other things and the appropriation for the national Bureau of Standards was severely curtailed. Moreover, the voluntary programs fell apart as individual firms increasingly sought competi-

tive advantage through product diversification (U.S. Library of Congress 1974, pp. 10–15).

The simplification movement produced numerous temporary and some permanent successes (Hudson 1928). Some individual consumer goods companies carried out their own internal simplification programs. For example, Cherington and Roddick (1940) cite the case of a candy bar manufacturer who eliminated many slow-selling varieties, discouraged the sale of mediocre ones, and vigorously promoted the best portion of his product portfolio with very beneficial effects on sales and profits.

But most writers (for example, Soule 1934) noted, or complained, that the simplification programs had little effect on final consumer goods. Cracker and biscuit bakeries were, for instance, reported to be producing between 150 and 350 varieties in 1925, and it is not at all clear whether those figures include all different packing case sizes and whether they include sweet goods such as cookies and cakes (Stevens 1927). The tendency toward diversification has been ascribed to many motives, including an overeagerness to satisfy consumer whims (Hudson 1928; McCullough 1928). But basically the issue centers around the recurring tension between trying to satisfy market demands with a low-priced standardized product and trying to approach the market with the advantages of a full and differentiated line.

The tendency of U.S. industry to proliferate product variations to match customer desires (and to obtain competitive differentiation) during the 1930s is demonstrated by simplification efforts that the government again mounted during the 1940 war years. As a minor functionary in the Office of Price Administration, the author participated peripherally in an arduous but more or less successful effort to induce the cotton work glove industry, which had customized its offerings to meet climatic variations and the preferences of every craft from corn-huskers to oyster-shuckers, to concentrate on about 80 to 125 styles instead of the pre-War 500 or 600.

Credit, Packaging, and Transportation

The marketing concept has been credited with changing the pre-1950 view that credit, transportation, and packaging were necessary evils into a post-1950 appreciation of their use as selling tools (see Vizza, Chambers, and Cook 1967). With regard to credit, it should be sufficient to quote Cox on installment buying. After pointing out (1949, pp. 5–18) that the formal installment buying arrangement appeared in the United States during the early nineteenth century, and that its growth paralleled the rise in purchases of mass-produced consumer durables, Cox says somewhat retrospectively (p. 394):

> And many producers and distributors do use it [installment credit] as a form of sales promotion. This is why some of the largest producers have gone to great pains to set up financing agencies to serve their distributors. It is probably the

> principal reason why many retailers are determined to keep installment financing in their own hands rather than let it be taken over by banks, finance companies and other cash lenders.[3]

The pre-World War II attitude toward packaging is summarized by Frey (1940, p. 256):

> Just as increased attention in recent years has been devoted to the manufacture of products suited to the market, so too has stress been laid upon the development of appropriate packaging. Recognition of the importance of the package as a sales and profit factor has led to an increase in the number and variety of products offered for sale in packages as well as improvement in existing packages.

As early as 1886, Quaker Oats placed sales messages and recipes on its packages (Schudson 1984, p. 166). Kiernan (1985, p. 261) believes competitive, promotional packaging first emerged in the 1800s among toilet paper manufacturers.

Attitudes toward transportation are demonstrated by the numerous ingenious pricing schemes designed to widen market outreach, described by Nelson and Keim (1941). Clearly, executives were not treating remote customers on a purely "Here it is—if you want it, pay to haul it" basis. Many companies included the traffic or outbound freight manager as part of the sales executive's staff, and numerous branch house systems were established to bring inventory close to the customers.

Profit Orientation

Recent presentations of the marketing concept often stress its emphasis on a *profit*, rather than a *volume*, orientation. The late nineteenth-century antitrust fervor reflected a popular belief that at least some corporations restricted output to enhance profits. Similarly, the businesspeople of the 1930s would be very much surprised to learn that they are now being castigated for a supposedly reckless pursuit of volume. Then they were often excoriated fairly or unfairly for restricting output ("plowing under little 'pig irons'") to maintain prices and unit profits. "A great deal of criticism was directed at the imperfections of markets organized around administered prices" (McKittrick 1957, p. 71). This contrasted with an agricultural situation where pure competition forced each farmer to maximize output and thus depress agricultural prices. The claimed resultant disparity between the prices farmers paid and the prices farmers received was advanced as an argument for government crop control and price support programs (Gee 1930, pp. 50–53, 156–58).

In fact, McKittrick, whose 1957 American Marketing Association (AMA) conference paper is often cited in discussions of the marketing concept, but who

seems to have been often misread or not read, faulted the owner-managers of pre-1940 corporations for over- (not under-) concentration on profits. This, he felt, contrasted with the more statesman-like role of the contemporary hired corporate manager who acted as mediator between various stakeholders, such as stockowners, workers, customers, the government, the environments, and the public. The main weakness of the older companies was, in his view, insufficient attention to long-term strategic planning.

Considerable ground exists for believing that many pre-World War II businesspeople were able to distinguish between profitable and unprofitable activities, and pursued the former. Accounting historians agree that fairly sophisticated cost-accounting tools were available and were used before 1940 (Chatfield 1977, p. 172; Jackson 1952, p. 228). Sales analysis was also widely utilized before 1940. Consequently, it is difficult to believe that business executives did not make cost and revenue comparisons. The Federal Trade Commission did find that many manufacturers were ignorant of the costs of serving particular customer classifications, specific territories, and/or product markets (Edwards 1940, p.108). But Palamountain (1955, p. 64, n. 26) believed that the 1936 Robinson–Patman Act had the paradoxical effect of causing many suppliers to engage in more careful cost accounting, which showed that their small customers were being charged less than justified by costs of serving such accounts. Aside from this development, there was considerable evidence (Palamountain 1955, pp. 62–73 and sources cited therein) that many producers had some reasonable appreciation of the cost and revenue relationships attached to various-sized accounts.

Cowan (1940, p. 77), perhaps talking about the blue ribbon companies, said, "Classifications are made to show volume, expenses, gross profits and net results by products, periods, regions and persons." (If he had substituted "places" for regions, he would have invented his own 4 P's.) The author of this chapter has heard Cowan lecture on how he introduced selective concentration on the more profitable accounts at Swift & Company in the early years of the Great Depression. The "DuPont Model," a well-known set of equations for estimating and explaining return on investment, still taught today, was instituted at DuPont before World War I (Chandler 1977, p. 446). It must have also been available to General Motors through Donaldson Brown, a senior DuPont financial executive who subsequently transferred to the automaker.

The 1920 movement for standardization and simplification, discussed elsewhere in this chapter, involved for many companies, even much smaller enterprises, the elimination of unprofitable lines. A producer of men's felt hats went from 1,684 styles and color permutations to the 70 on which it did 90 percent of its business, and a shoe firm reduced its offerings from approximately 2,500 styles in three grades to 100 in one. Both increased their profits (Frey 1940, pp. 180, 186).

Many reasons may induce business firms to concentrate, reluctantly or eagerly, on volume objectives, which in the long run may turn out to be profit

objectives. This leads to the final point, expressed by Filene (1927, pp. 80–82). He held that while it was common practice to measure costs and add them up to determine a (profitable) price, it was much better practice to set a price that would increase volume and then use it as both a means and a goal to cost reduction. Filene's approach seems closer to a true market orientation than any mandate for profit seeking.

A Note on "High-Pressure" Selling

The standard chronology describes the 1930s as a period of "high-pressure" selling. This characteristic is seen primarily as a response to the Great Depression and the presumed shift from a seller's market to one in which the buyers assumed power. "High pressure" is not always well defined, but it is represented by stereotypes such as the "Music Man," the sly Yankee trader, and P. T. Barnum; in other words, in personal salesmanship fast-talking insistence upon immediate purchase, in advertising constant boastful repetition, and in both little regard for full and candid disclosure.

One may well raise some questions about the validity of the stereotypes. Many pre-1950 salesmen had long continuing relationships with their customers. Wholesalers dominated much of nineteenth-century consumer goods business (Porter and Livesay 1971). The growth in the 1930s of voluntary chains that united large numbers of small retailers under wholesaler leadership is evidence of the continuation of at least some of that influence. Although wholesalers sometimes acted in a cavalier fashion toward dealers, those relationships and semi-integrated arrangements could not have continued as long or as successfully as they did if they had not been based upon mutual trust and cooperation. High-pressure tactics would have been self-defeating in the long run. "Diamond Jim" Brady, the apparent extreme exemplar of another "high-pressure" type, the ostentatious, vulgar, free-spending "good-time Charlie," best known for his liaison with the actress Lillian Russell, was actually a skilled salesman of railroad equipment. His ornate dress, hail-fellow-well-met manner, opulent parties, and lavish gifts were elements of a sales approach that was based upon an encyclopedic knowledge of the railroads. Through personal inspection and through acquaintanceships down to the section gang level, Brady became familiar with the roads' trackage, rolling stock, motive power, personnel, and operating problems and needs (Burke 1972, pp. 67–69).

This is not to deny the use, probably the widespread use, of high-pressure tactics before 1940. The critical question for this chapter, however, is not whether high pressure was existent or nonexistent prior to 1940, but rather whether the pre-1940 condition was radically different from that of modern time. The nature of many television commercials and recent controversies over so-called "junk mail" and over children's television advertising illuminate the fact that high-pressure selling did not permanently disappear in 1940. Nor, to cite one

more example, did it permanently leave the used car lot (Browne 1973). So, in practice it becomes hard to distinguish the 1930s from the 1970s or the 1980s as representative of the "hard" and "soft" sell. As Reavis Cox might remark, we cannot seek a vigorously competitive society, in the business rather than the economic sense of competition, in which people compete only softly.[4]

Social Marketing

As noted earlier, the term "social marketing" has come into vogue as an extension and improvement on the marketing concept. It has at least two quite different meanings. One is a desire for normative judgments, a concern for the societal impact of marketing actions and systems. But that is certainly not new to the literature. Lack of a holistic view can hardly be charged against the early writers who are constantly accused of being insufficiently managerial. It also cannot be levied against a pre-World War II literature that produced such volumes as Stewart and Dewhurst's *Does Distribution Cost Too Much?* (1939) and Borden's *Economic Effects of Advertising* (1942). The question of whether managerial attitudes have changed is beyond the limits of this essay.

The other meaning of social marketing is the application of marketing techniques to nonprofit organizations and to social and political causes. Again, this is hardly new. An advertising textbook published in 1917 (Martin) contains a chapter on "Public Sentiment Campaigns." It includes sections on political advertising; advertising a city, a state, and a nation; advertising to win strikes; and general goodwill advertising. One has only to read even such self-serving reports as George Creel's *How We Advertised America* (1920) to sense the planning, organization, and analysis behind the government effort to mold public opinion during World War I. Social marketing was, and still to a large extent is, done by people who called themselves fundraisers, publicists, propagandists, and public relations counsel. A supposed distinction is that the social marketer works with more knowledge of the potential audience(s), draws more careful plans, and is more likely than the other specialists to shape the offering as well as its description. These, however, are more matters of individual stature and competence than of specialization. Lasswell, an authoritative observer, said (1935, p. 190): "Business and nonprofit groups may handle propaganda through the law department, the marketing division or the office of the chief executive and the official title of the propagandist may be descriptive or deceptive." Similarly, Edward Bernays, a well-known public relations counsel, wrote (1928) that he used the same techniques of managing events to further the interests of the government of Lithuania that he used to create new markets for silk textiles.

In Retrospect

Recapitulating the evidence presented thus far may be helpful. Macrostatistics show that, war and depression notwithstanding, the U.S. public absorbed a substantial and increasing volume of discretionary products over the years between

1900 and 1941. Many new products such as radios, oilburners, air conditioning, electric refrigerators, new packaged foods, and passenger air transport were introduced or popularized, and many product modifications took place.

This chapter has not explored the difficulties of fashioning markets for those innovations, and in retrospect they may seem so convenient and necessary that consumer resistance would appear to have been impossible—but that is historical error. The consumer who never knew an electric refrigerator had to be convinced that it would work, that it would not explode, that it would not harm the food, and that it was worth both the monetary cost and the effort of change. All of this discretionary spending and new product adoption took place in a setting in which personal savings remained high. Yet price behavior, which involved only a fairly moderate upward trend from 1890 to about 1915 and a generally declining one from 1920 to 1940, indicates that the high savings rate did not result from a shortage of consumer goods on which to spend the money. (The 1915–20 inflation was an exception to this observation.) Clearly customers had to be obtained and business did not enjoy a runaway sellers' market.

Marketing professionalization grew during the period. This becomes especially apparent if one recognizes that many people who performed marketing management or marketing staff functions bore such titles as sales manager, merchandising manager, or sales engineer. Professional societies developed, although their memberships were much smaller than their modern counterparts'. Business school marketing courses grew, and advertising agencies became marketing agencies.

With their marketing orientation, major companies offered very extensive choices to cater to intersegment variations in product demands. They used a variety of mechanisms to coordinate advertising, selling, sales promotion, product design, and production. They used market analysis, test marketing, and survey research. They lacked some of the current market researchers' psychological tools and many of their statistical ones, but those are matters of technique, not orientation. They understood the use of credit and transport as marketing tools, and insofar as practicable (then as well as now) sought profit rather than sheer volume. Even social marketing can easily be traced to the early years of the century. As an aspect of a world marked by great political, religious, and moral movements, its history stretches into the very distant past.

Some perceptive writers now say that only a few or some companies adopted the marketing concept after World War II and reconversion. Even more perceptive writers say that the concept adopted was flawed and limited, at least in what came to be its simplistic interpretation. Similarly, the pre-World War II business press contains many generalized, unsubstantiated statements about business marketing inadequacies. But that is normal. Accountants, controllers, personnel managers, traffic managers, product designers, and all other types of specialists as well as marketers usually devote their nontechnical speeches to the subject of how unappreciated they are. The record suggests that the differences between marketing before and after World War II are matters of degree rather

than of kind, and that many of those boil down to differences in technology and terminology, not in basic philosophy. The standard chronology does not fit.

EXPLANATION

How can one explain the prevalence and popularity of the standard chronologies in the face of so many contrary facts?

The idea of the marketing concept has been popularized within the academic community through introductory textbooks and within the business community through trade press articles and after-dinner speeches. Many publishers, authors, and speakers believe that these media call for easily remembered, absolutist presentations, with little subtlety or reservation. One modern view of good historical pedagogy calls for very distinctive labeling of discrete time periods organized around easily remembered dates, such as the decennial years. This does produce the best results on machine-graded examinations.

In fairness, it should be noted that many of the texts cited in Table 1.1 contain statements about exceptions to the chronologies. A few journal articles cast doubt on either the novelty or the pervasiveness of the marketing concept (LaLonde and Morrison 1967; Bell and Emory 1971). Professor Ronald Fullerton (1985) prepared a paper (which I have by agreement not seen as I write this essay) that will agree with what has been said here. The point is that I cannot claim to be a lone voice crying in the wilderness.

The idea of moving from a production to a sales to a marketing orientation is the marketer's version of the belief in *progress* that characterizes Western, and particularly U.S. culture. The so-called "marketing concept era" came immediately after the 1940s' war and reconversion decade—the most pronounced "production era" of the century. The war years may have obscured marketers' impressions of earlier times.

Marketing is particularly ahistorical or even antihistorical. Marketing scholars typically quote only very recent sources in their journal articles (Goldman 1979). There are two journals in the history of accounting; *The Academy of Management* has a strong historical section. Although some small signs of change have appeared, marketing lags far behind the other business disciplines in historical research. A large proportion of what has been made available on the history of marketing thought [for example, Bartels (1976) and a now out-of-print and mostly unknown or forgotten series of reprints offered by Arno Press] is based upon college textbooks. These are very useful and informative sources, but they constitute only a part of the story. We need a much more extensive literature that explores the marketing academics' more scholarly output and the thoughts and actions of marketing practitioners, critics, and regulators.

The standard chronology has probably hindered research into marketing history by more or less denying that there is any. It has been enormously self-

satisfying, however. It tells marketing students, and academics, and practitioners that they are the first people in history to fully understand marketing.

IMPLICATIONS

The historical record, in addition to its intrinsic value, has important implications for current research, teaching, and practice.

Whether one agrees with the thesis of this chapter or not, any reader must find in any detailed historical account evidence of the richness, diversity, and complexity of marketing in an industrialized world. The standard chronologies are, I submit, gross oversimplifications. That still leaves open the question of what the harm of oversimplification is in this connection.

First, it provides an entirely false sense of progress. The euphoria over the supposed emergence of the marketing concept out of the primeval muck of production and sales orientations may have had some positive benefits. It may have temporarily stimulated morale, encouraged enrollment in marketing courses, and enhanced the status and budgets of some corporate marketing divisions. To the extent that that enthusiasm rested upon an erroneous base, it held out a false promise. It clouded the profession's eyes to how little basic progress had been made in solving fundamental micro and macro problems.

Drucker's familiar remark (1969) that consumerism was the shame, the failure of the marketing concept, is more than a catch-phrase. It indicates the gap between what marketers thought they were providing in the way of new and increased consumer satisfactions and what substantial segments of the market felt had really been accomplished. It also suggests that the gap will not be permanently closed by bandying about other slogans, such as "social marketing." Perhaps that gap can never be eliminated in a society that must accept some of the costs and frictions as well as the benefits of competition and that encourages constantly rising expectations. Any serious attempt to understand or deal with it must pass from sloganeering to detailed consideration of a topic familiar to all of Reavis Cox's students: detemining the cost and value of marketing.

Second, the dominance of the marketing concept, as a prime paradigm for marketing academics, tended to divert scholarly attention away from some of the social and macroscopic implications of marketing activity.[5] Marketing teaching and research will probably always remain primarily managerial. There have been both many exceptions to an exclusively managerial orientation in the past and signs of growing current interest in macromarketing and social issues. Nevertheless, the enthusiasm for the marketing concept is likely to have been the cause of some imbalance in academic interest.

Third, the belief in the emergence of the marketing concept as a new and efficacious solution to marketing managerial problems may well have reduced marketing managers' attention to many aspects of their craft. It certainly over-

shadowed academic attention to such matters as marketing strategy (Day and Wenseley 1983) and negotiation (Mitchell and Dickinson 1985). Some writers believe that it led to oversegmentation, the creation of overly extensive product lines, and the loss of important economies of scale (Levitt 1983; Resnick, Turney, and Mason 1979a,b). Both marketing management and, to an even greater degree, business management are complex operations. Stressing one or two or three aspects of either process to the neglect of the rest of the task inevitably becomes dysfunctional. One wonders if all of the proclaimed emphasis on marketing has not led to the slighting of other manufacturing considerations besides the oversegmentations discussed above.

Caution should temper enthusiasm for any one swift panacea that is supposed to resolve marketing problems. The marketing concept, simplification, diversification, centralization, decentralization. portfolio theory, emphasis on volume, market share or profit, and absorption of Japanese marketing techniques all seem to have their uses and limitations. But none are "cure-alls" and most are less novel than they first seem. History may help us determine what works when and under what conditions.

Acknowledgment. I am not entirely certain that Reavis Cox will agree with all of the points made in this chapter, but he always encouraged considerable diversity of opinion among his students. Once, after I gave a paper at an AMA session in which he presided, someone approached him and in an attempt at academic one-upmanship said, "Your own student disagrees with you." I was prepared to defend my paper as purely Coxian, but Reavis ended the matter by saying, "That is the point of education." Moreover, Reavis always encouraged my interest in a historical approach. I do wish to acknowledge the assistance of Mr. Jeffrey Thompson and Mrs. Kathy Rassuli in connection with the tables and of Mrs. Jan Thelen in preparing the manuscript. The essay has been edited by incorporating suggestions made by Prof. Ronald A. Fullerton.

NOTES

1. The documentation has been curtailed by remembrance of Reavis Cox's literary admonition that a desire to incorporate every 5 by 8-inch bibliography card in the manuscript is the Achilles' heel of graduate student writing.

2. At the same time I have been drafting this essay, Prof. Ronald I. Greenwood and Charles D. Wrege prepared a paper, "Introducing Marketing to Scientific Management 1921–1927," for presentation at the Second Workshop on Historical Research in Marketing, East Lansing, Michigan, April 18–30, 1985, which appeared in the workshop proceedings.

3. Cox goes on to predict that when installment selling becomes so widespread as to offer no differential advantage, many retailers will be quite willing to let third parties handle their credit ar-

rangements. That is exactly what has happened today; so in some ways it is the modern, not the pre-1950, merchant who regards consumer credit as a necessary evil.

4. This is a paraphrase of a remark in class or conversation that I am now unable to quote verbatim.

5. Both Prof. Roger Dickinson of the University of Texas at Arlington and Prof. Fisk have suggested this in personal correspondence.

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[36]

Ronald A. Fullerton

How Modern is Modern Marketing? Marketing's Evolution and the Myth of the "Production Era"

The widely accepted belief in a Production Era implies that serious and sophisticated marketing is a recent phenomenon. Analyzing conditions in Britain, Germany, and the United States, the author shows that the Production Era concept obscures the extent and level of development of earlier marketing practice, as do the Sales Era and Marketing Era concepts. A new model of marketing's evolution is used to propose a more accurate periodization of modern marketing's development.

> It is one thing to make goods and another to manufacture a market for them. This is the theory of modern business (Jackman and Russell 1910, p. 121).

FOR more than a generation the concept of the Production Era has dominated the understanding of marketing's past held by students and scholars alike. Elegant in its formulation and categorical in its implications, it has fostered the widespread belief that rational, purposeful, and sophisticated marketing practice is a fairly recent development. Serious marketing is believed to have been unnecessary under the simple economic conditions that supposedly prevailed until well into the twentieth century.

The Production Era commonly is dated from about 1870 until 1930. Its characterizing features are said to have been that:

- firms focused their attention largely on physical production, straining to overcome age-old constraints on supply with new technologies and more efficient management techniques, and distribution was a secondary concern, left to independent wholesalers and retailers;
- output consisted of limited product lines whose conception and design reflected production requirements more than research into customer needs; insight into customer needs was not crucial because
- demand exceeded supply; disposable income and desire for any available products grew rapidly and without pause among the broad populace and
- there was little competition in each product market; hence,
- wholesalers and retailers did not have to develop sophisticated methods because products "sold themselves;" wholesalers and especially retailers were peripheral to business enterprise, whose locus was manufacturing firms.

In sum, "firms gave little thought to marketing" (Bagozzi 1986, p. 16), and little in the way of sophisticated or purposeful marketing practice developed until much more recently.

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Marketing scholars have made the Production Era a major component of the minimal marketing history taught to marketing students in the United States and Britain. In a judgment sample of 11 recent U.S. texts, nine have explicit descriptions of it (Assael 1985; Berkowitz, Kerin, and Rudelius 1986; Evans and Berman 1985; Kinnear and Bernhardt 1986; Mandell 1985; Mentzer and Schwartz 1985; Rachman 1985; Schoell 1985; Stanton 1984). The other two are less explicit but convey a similar message (Bagozzi 1986; Cravens and Woodruff 1986). In Britain, Oliver (1980) explicitly and Jefkins (1983) and Smallbone (1972) implicitly present the concept.

The inspiration for these textbook depictions of the Production Era is Keith's (1960) widely cited article on the evolution of marketing at the Pillsbury Company. According to Keith, the Production Era at Pillsbury extended from the firm's beginning in the late 1860s into the 1930s; it was characterized by management emphasis on production rather than distribution. The Production Era was followed in the 1930s by the Sales Era, in which energetic personal selling was backed by research and advertising, and in 1950 by the Marketing Era of sophisticated customer orientation. Somewhat cryptically, Keith termed Pillsbury's experience "typical" (p. 36). He did not say of what it was typical and gave no evidence that other firms had undergone similar periods of development. Nonetheless, Pillsbury's experience often is presented as typifying that of most companies. Keith did not mention external economic and social conditions; most later writers have decided that the Great Depression of the 1930s brought the favorable conditions of the Production Era to an end and forced desperate businesspeople into the hard-sell orientation of the Sales Era.

How generalizable is the Pillsbury experience? No alternative formulations have been proposed in the marketing literature to date, yet the well-known work of Bucklin (1972) and Hollander (1960) on evolution in distribution systems suggests a richer and longer gestational period for modern marketing institutions. Dixon (1981) found sophisticated thinking about marketing to have gone on several centuries ago. Because the discipline's growing maturity has stimulated a desire for a more thorough understanding of marketing's past, work on marketing history has surged in the last few years. Contributors have included marketers (e.g., Chin and Sheth 1985; Fullerton and Nevett 1986; Hollander 1986; Pollay 1985), historians (e.g., Baudet and van der Meulen 1982; Braudel 1982; Fox 1984; Fraser 1981; McKendrick, Brewer, and Plumb 1982), and sociologists (e.g., Schudson 1984). It is time to reevaluate the Production Era concept.

The purpose of this article is to provide such a reevaluation by:

- presenting the case for the concept's validity in three advanced Western economies (Britain, Germany, and the United States),
- revealing the much stronger case against its validity,
- showing how the case against the Production Era weakens the accepted view of the Sales Era and Marketing Era that have been said to follow it, and
- presenting a model of historical evolution and from it constructing a new periodization scheme for modern marketing's historical development in the three countries.

Method

The method of investigation follows the approach of mainstream American and Western European historical research. Full treatments of the approach are given by McCullagh (1984) and Iggers and Parker (1979). Savitt (1980) contrasts it to that used in marketing. The historical approach has three facets. One is a philosophical belief that historical phenomena such as markets are intrinsically rich and complex; efforts to simplify or to assume away aspects of such phenomena are deeply distrusted. A second facet is a research tradition emphasizing systematic and critical evaluation of historical evidence for accuracy, bias, implicit messages, and now-extinct meanings. The third facet is the process of synthesis through which the researcher interprets the evidence to provide a coherent re-creation of what actually happened in the past. The synthesis also should explain why things happened and their significance for the time and later. In the historical philosopher Collingwood's classical description (1956, p. 242), historical synthesis is "a web of imaginative construction stretched between certain fixed points provided by" critically evaluated source material. The process is creative but also critical; the coherence imposed must be consistent with the preponderance of available evidence. The more evidence subsumed under an historical synthesis the better; the underlying logic is analogous to that of regression.

The Production Era is an historical synthesis. It certainly provides a clear and coherent interpretation of past events. The question, however, is whether it subsumes enough evidence. An answer can be obtained by evaluating the evidence now available on the period's business life.

The study follows the preference of many contemporary historical researchers for cross-national investigations. The rationale for this approach is that major developments in economic life such as those discussed here are seldom confined to just one country. They spill over national borders. During the period

studied, there was an enormous and continual interplay of influence and interaction among businesspeople in Britain, Germany, and the United States. The countries traded heavily and competed vigorously. Successful innovations were adopted quickly. British and, later in the period, American advertising technique had great influence in Germany. Americans got their first vending machines from England. Early American marketing education drew upon German precedents and literature. Such examples can be multiplied. Trends in business practice were cross-national among the three countries, though certainly colored to some extent by indigenous culture. If there was a Production Era, it would have occurred in all three countries. American and British texts posit such an era in those two countries and the German historian Kocka (1980, p. 107) implies one for Germany at about the same time.

Sources

Source material is plentiful. That used here is a large judgment sample of the total. Whenever possible, findings from one source are replicated by those from one or more others. Three major categories of sources were employed. Samples of the numerous trade manuals and handbooks used at the time were consulted for their fine portrayal of what were seen then to be pressing business concerns (e.g., Beable 1925; Cronau 1887; Goddard 1889; Phillips 1905). An important subcategory is manuals issued by individual firms for their employees (e.g., *Branch Standard Practice* 1917). Works produced by early academic marketers are a second major source category (e.g., Converse 1930; Hirsch 1925; Ivey 1921; Mataja 1916; Simons 1924). Such works are of high intellectual caliber and based on careful analysis of then-current business practice. The very "descriptiveness" for which they later were reproached makes them excellent historical records. The third category of sources is historical studies. They range from firm (e.g., Barker 1960) and industry (e.g., Rae 1984) histories to large-scale syntheses (e.g., Braudel 1982; Cochran 1977). Most were not written explicitly as marketing histories, but contain much information on past marketing, some of it obtained from firm archives and trade papers. In addition, they provide the analytical judgments of trained professional historians.

The Case for the Production Era

If the case for the Production Era depended only on Keith's Pillsbury example, it would be suspect by virtue of small sample size alone. Pillsbury was only one of thousands of companies active from 1870 to 1930 and may not have been "typical" of the others. Still, the traditional picture of the Industrial Revolution painted by economic historians tends to substantiate a Production Era. They stress technological advances in production and transportation. Following classical economic theory, they assume demand to have increased automatically as real income rose, which it did for a growing number of people as a result of industrialization. The real—and only—challenge is believed to have been production. Landes' (1969) influential history of the Industrial Revolution, for example, asserts that the technological increases in production associated with the Industrial Revolution were "at the heart of a larger, more complex process often designated as modernization" (p. 5–6). Landes describes how the application of water, then steam, then electric power to increasingly complex machinery, combined with new discipline and training of factory workers, made possible "an enormous increase in the output and variety of goods" (p. 5).

This increase was not achieved easily and the revolution in production was by no means completed by 1870 or even by 1930. Only after decades of effort by skilled people did the idea of interchangeable parts become a functioning reality in large-scale production (Hounshell 1984). The mass mechanical production of cloth was one of the earliest achievements of the Industrial Revolution, but the manufacture of most finished clothing requires extensive hand labor to this day. In Britain and Germany, production increases often were the result of concentrating enormous numbers of laborers in factories, whereas labor shortages in the United States encouraged the substitution of machines for hand labor (Heskett 1980, Ch. 3).

Within some industries, major production breakthroughs were made relatively rapidly and only evolutionary adjustments were made thereafter. By the 1860s the breakthroughs had occurred in the United States in watchmaking, pinmaking, barrelmaking, and the manufacture of pressed glass, small firearms, and sewing machines; chairs were produced in large volume in both the United States and Germany. Inspired by these examples, businesspeople tended to confront and even seek out production problems with feelings of confidence that they could solve them.

Some firms *were* oriented heavily toward production and engineering and were indifferent toward marketing, according to both marketing writers of the time (e.g., Sheldon and Arens 1932, Ch. 3) and later historians (e.g., Meikle 1979, p. 16). Cochran (1977, p. 192) observes that as late as the 1920s "the language of factory productivity continued to dominate business speeches and popular articles," a long-term consequence of the fact that "improved technology . . . had led businessmen and scholars all over the world to glorify production" (p. 21). By the 1920s the "ethos of mass production" (Hounshell 1984, p. 329) had spread to the public at large. Mass production was

seen as the key to abundance and the master of mass production, Henry Ford, was admired at home and abroad as no other businessman before or since.

The feats of productivity were real, as was the prominent place production occupied in the consciousness of many business leaders. Nonetheless, these facts are insufficient to prove a Production Era in business history. At the same time production was being revolutionized, so too was marketing.

The Case Against the Production Era

Recent historical research on both sides of the Atlantic has cast doubt on the traditional supply-oriented interpretation of the Industrial Revolution that supports the Production Era concept (see Baudet and van der Meulen 1982; McKendrick, Brewer, and Plumb 1982). Four strong arguments now can be marshalled against the notion of such an era.

1. It ignores well-established historical facts about business conditions—competition was intense in most businesses, overproduction common, and demand frequently uncertain.
2. It totally misses the presence and vital importance of conscious demand stimulation in developing the advanced modern economies. Without such stimulation the revolution in production would have been stillborn.
3. It does not account for the varied and vigorous marketing efforts made by numerous manufacturers and other producers.
4. It ignores the dynamic growth of new marketing institutions outside the manufacturing firm.

Let us examine each of these arguments in some detail.

The Concept Misconstrues Business Conditions

The Production Era was supposedly a time when steady growth in disposable income caused demand to increase faster than supply. If we could somehow send this description back through time to contemporary business people, they would find it absolutely ludicrous in light of their own trying experiences with the business cycle, overproduction, deadly serious competition, and a social and demographic environment that was changing bewilderingly and rapidly. The business world then was often as tough, and sometimes tougher, than today's.

Changes in the social and demographic environment were truly revolutionary. A massive migration brought more and more of the once self-sufficient and tradition-bound rural population to urban areas where, unsettled in attitudes and no longer self-sufficient, they were a potential market. However, it was a market for which there were no guiding precedents and which would not absorb everything available; to tap it effectively required marketing acumen (Fullerton 1979). Initially gullible, the new urban masses—and other consumers—quickly became more savvy and critical (Shaw 1916, p. 201). Consumer tastes changed ever more rapidly, most beyond the control of businesspeople. Women began for the first time to be the primary buyers of consumer products; businesspeople had to learn to understand them.

Uncertain in the best of times, *demand* for most products plummeted during the frequent yet rather unpredictable downturns in the business cycle. In the U.S., economic depressions occurred in the early 1870s, the early 1890s, and again in the early 1920s—with recessions and "panics" between. Similar conditions prevailed in Britain and Germany, where the First World War (1914–1918) and its aftermath made the 1920s less prosperous than in the U.S.

Overproduction, a problem in the U.S. even before the Industrial Revolution (Shapiro and Doody 1968, p. 78, 186, 424ff), plagued all three countries during most of the alleged Production Era. Mass production technology increased the pressure to produce "in good or bad times, . . . because closing down involves the loss of interest and capital," according to Professor Tosdal of Harvard (1925, p. 18). If Pillsbury did not face such a problem, it was one of a fortunate minority of firms. The majority had to heed Goddard's (1889, p. 5) manual: ". . . the three leading interests of all civilized countries are producing, manufacturing, and selling, and the first two are largely dependent upon the last."

Competition, severe before 1870, intensified thereafter. "Competition is in the field of distribution almost ever-present and frequently acute," wrote a contemporary (Shaw 1916, p. 6). Nearly every other American, British, and German writer from 1870 to 1930 concurred (see, e.g., Allen 1885, p. 10, 101; van der Borght 1912, p. 38; Brisco 1916, p. 8, 11; Comyns and Jones 1927, p. 3–4; Tosdal 1925, p. 18, 24). Professional historians have agreed consistently (e.g., Chapman 1979; Cochran 1977, p. 89; Heuer 1937, p. 3ff; Porter and Livesay 1971, p. 10ff, 192ff). In Germany, new entrants charged into every possibly viable business after the removal of old restrictions on entry into trades in the early 1870s; competition increased. In the U.S. and Britain, where open entry had long been the norm, any hint of success brought many entrants and more competition; speculative investment capital to finance new entrants was plentiful. Literally hundreds of companies competed with one another at any time during the first two decades of the auto manufacturing business in the United States, for

example. Their collective productive capacity was far beyond even the ability of the exploding automobile market to absorb.

The Production Era was during the climax of what historians (e.g., Puhle 1984; Sombart 1928, vol. III) have called the Age of High Capitalism—a period characterized by unrestrained *ambition and aggressiveness* in business conduct. Famous exemplars include James B. Duke and John D. Rockefeller. No matter how well they did, businesspeople felt they had to increase sales. In the U.S., for example, even the managers of protected monopolies like the Bell companies and utilities were marketing energetically to increase sales during the prosperous 1920s (Breyer 1931, Ch. 26; Converse 1930, Ch. 14).

Obviously, then, the business conditions depicted in the Production Era scenario did not exist.

The Concept Misstates the Nature and Role of Demand

The Production Era concept presupposes strong demand from buyers for whatever was put on the market. People are considered to have been engines of aggressive consumption whose demand rose automatically with the supply of affordable products. Such products are believed to have sold themselves. The underlying theoretical assumption here is Say's Law—an eighteenth century theory that production produces its own demand. Say's Law, however, has long been questioned by economists and historians alike (Pribram 1983, p. 168). It is a questionable underpinning for an interpretation of business history.

A much better guide is provided by the American economist Gilboy's (1932) classic theoretical work. Gilboy argued that, historically, the creation of increased demand by conscious efforts (i.e., by marketing efforts) counted equally with the technological revolution in production in developing the modern industrialized economies. Neither alone nor in conjunction with improved transportation could greater production have increased demand very much, because demand was held in check by powerful forces of traditionalism that were impervious to it. Making more products available would have had no effect on people who did not want them. However, in societies where there was mobility within and between classes, energetic, rational, and purposeful activity by merchants and entrepreneurs could stimulate demand, which in turn stimulated production. Production and marketing activities worked in tandem. They achieved results together that neither could have achieved alone, according to Gilboy.

In the cases of Britain, Germany, and the United States, considerable historical evidence supports Gilboy's theory. Before the Industrial Revolution, for example, there were businesspeople with genuine marketing acumen and ambition (Braudel 1982), but hand production and poor transportation severely constrained the size of their markets. So, too, did the powerful forces of consumption-inhibiting tradition that governed the large rural majority of society (DeVries 1976, p. 14). The businesspeople had the skills to overcome at least some of the traditional inhibitions, but had nothing affordable to sell to the peasantry and no means of transporting it anyway.

The breakthrough came with the start of the Industrial Revolution in Britain in the 1770s. In a recent landmark book in marketing history, McKendrick, Brewer, and Plumb (1982) show that the Revolution succeeded because production and marketing worked in tandem. Some of the famous pioneers of production such as Mathew Boulton and Josiah Wedgewood were also pioneers of modern marketing, cultivating large-scale demand for their revolutionary inexpensive products with techniques usually considered to have been post-1950 American innovations: market segmentation, product differentiation, prestige pricing, style obsolescence, saturation advertising, direct mail campaigns, reference group appeals, and testimonials, among others.

From Britain, demand-enhancing marketing spread. Ambitious businesspeople in Germany and the United States adopted aggressive British marketing practices just as they did British production technology. This process was underway before 1870 and accelerated thereafter (Fullerton 1975; Ch. 2, 3; Hounshell 1984). To American marketing teachers in the early 1900's, "demand creation" was one of the fundamental business tasks (e.g., Converse 1930, p. 35ff; Shaw 1916, p. 99ff, 246ff; Tosdal 1925, p. 18). Demand for innovations like the automobile, the cigarette, and the typewriter was consciously stimulated by a full range of marketing efforts including price and distribution as well as advertising and personal selling appeals. Some of the pioneering automobile advertising in the U.S. puts to shame that done in our time for the personal computer. During the whole period of the alleged Production Era, American businesspeople were considered by Western Europeans to be the supreme masters of aggressive demand stimulation (see Cronau 1887; Marahrens 1875; Sombart 1967). Mass production, wrote the U.S. advertising executive Harry Tipper in 1914, required that consumers "be taught to use more than they formerly had used" (quoted by Pope 1983, p. 33–4). His words were heeded. As Cochran (1977, p. 192) wrote of the American businessmen of the 1920s, even as they used the rhetoric of production in discussing their actions, the actions themselves were more often marketing actions.

German businesspeople liked to think of themselves as less aggressive and flamboyant than their Anglo-American counterparts, but they too worked with

increasing vigor and sophistication to stimulate demand. As printing technology improved rapidly after 1800, for example, publishers found that even rapid increases in population, income levels, and literacy did not guarantee demand commensurate with their productive capability. Demand had to be and was consciously studied and stimulated (Fullerton 1975). Such practice was not confined to the book trade. Design schools were established to train designers who could make more appealing products (Heskett 1980, p. 23; Pulos 1983, p. 119).

Old inhibitions about using advertising disappeared rapidly during the second half of the 1800s and by 1914 Germany's per capita expenditures on advertising were equal to those of Great Britain (Fullerton and Nevett 1986). Looking back in 1936, the marketing scholar Eliasberg (p. 11, translation by the author) found that: "During the past hundred years the entire market, all of consumption, has been totally transformed and enlarged through the stimulation, intensification, diversion, and awakening of needs." Contemporaneously, Germany's greatest economist (Schumpeter 1936, p. 65) theorized that creative demand stimulation was basic to entrepreneurial success in any business; the effective entrepreneur actively sought to create new consumer demand. In Germany as in Britain and the United States, many businesspeople did exactly that—during the alleged Production Era.

In all three countries the incessant demand stimulation had its effect: consumption rose and "aggressive consumption" (McKendrick, Brewer, and Plumb 1982, p. 316) spread to much of the population. Conservatism, asceticism, and sumptuary laws were not eliminated, however, and though less powerful than they once were continued to restrain demand at times, especially demand for new and/or showy products (see Hollander 1984; Mataja 1926, especially Ch. 4). Moreover, as production technologies continued to improve and as more new products entered the market, the need for "demand creation" remained crucial to business success.

The Concept Ignores the Marketing Activities of Manufacturers and Other Producers

The lead in stimulating demand often was taken by producers, contrary to the passive role ascribed to them by the Production Era scenario. Moreover, they assumed the leadership role in nearly all other marketing functions during the decades after 1870. The producers involved included manufacturers of industrial as well as consumer products and agricultural cooperatives as well as food processors. The trend toward producer-dominated marketing went farthest in the United States but was important in Britain and Germany also.

It was motivated largely by producers' growing dissatisfaction with the merchant wholesalers who previously had dominated marketing. Producers felt that merchant wholesalers paid no special attention to their newly branded goods, were negative toward innovative products, and could no longer supply market intelligence to meet producers' increased needs. Consequently, more producers began to take charge of their own distribution efforts, from market analysis and product design through distribution, promotion, and pricing. By the 1920s wholesalers had been relegated to a subservient (though still useful) position all three countries (Chapman 1979; Ivey 1921, Ch. 1, 2; Triebenstein 1966).

Table 1 shows the extent of producers' marketing activities and initiatives during the years 1870 to 1930. It reveals very clearly that many producers were not only proactive in their marketing stance, but also progressive, adopting better methods as they were developed. For example, formal training for salespeople swept U.S. manufacturing firms about 1900; it had proven effective in Germany before that time. Previously the prevailing belief had been that salespeople were born and not made. Extensive support services for salespeople were established by some firms—the American Radiator Company had 67 different form letters to aid salespeople in various lead-gathering and followup situations (*Branch Standard Practice* 1917). Like other companies, American Radiator had adopted call report requirements as their value became established. Similar practices developed in Britain (Simons 1924).

Attention to buyer needs was a major element in successful producers' marketing efforts. During the 1880s, for example, increased competition had impelled the Waltham Watch Co. to abandon the practice of having agents sell whatever the factory decided to produce in favor of producing "exactly the kinds of goods required by the market in exactly the amounts that could be sold to advantage" (Moore 1945, p. 76). Similar cases are easily found in Germany (see Sombart 1967, p. 143) and Britain (see Barker 1960, p. 196). Ivey's 1921 U.S. text reports as widespread "the production of goods made primarily to render satisfaction rather than [just] to sell" (p. 10).

Producers knew very well that a single product did not satisfy everyone. They practiced segmentation. Often presented today as the quintessence of ultramodern marketing (e.g., Kotler 1984, p. 250), segmentation was employed widely before 1930. "Innumerable businesses recognize the existence of market contours [i.e., segments] by putting out their products in two or more grades," wrote Shaw in 1916. He continued, "This is accepted practice among manufacturers of clothing for both men and women, watches, talking machines, cameras, hand tools, *and a long list*

TABLE 1
Producers' Involvement in the Marketing Mix, 1870–1930

Marketing Function	Producer Activities and Initiatives	Examples	References
Product planning, development, management	*Branding*, use of *trademarks*—some use before 1870, increasingly greater use after.	• Pear's Soap (U.K.)—1860s on; much imitated. • Sapolio cleanser (U.S.A.)—from 1869, showed power of branding. • Henkel's Bleich Soda (Germany)—1876. • Prudential Insurance Co. "Rock"—from 1890s.	Redlich (1935) Wilson (1954)
	Packaging—to identify brand and enhance its appeal as well as to protect. Paper, board, pottery, glass, metal (cans), and foil in use by 1900. Cellophane introduced in 1912.	• Dr. Lyon's Tooth Powder (U.S.A.)—1874 • Lever introduced first laundry soap carton in 1880s (U.K.). • Canned asparagus—several popular brands in Germany.	Davis (1967) Minchinton (1982) Wilson (1954)
	Grading and standardization of agricultural products—enhanced demand by allowing consumer to judge quality from grade, allowed futures trading to improve supply-demand balance. Biggest strides in U.S.A.	• California Fruit Growers' Board took much initiative.	Converse (1930, Ch. 7–12) Ivey (1921, Ch. 19)
	Segmentation—widely practiced by producers, including mass producers. Many products intended for specific segments.	• General Motors' "a car for every purse and purpose." • Parker Pen Co.—40 pens from $1.50 to $20.00 in 1899 catalog, longest and fattest said ideal for doctors.	Lawrence (1977) Fullerton (1985) Sloan (1965)
	Market analysis—ongoing study of competition, market potential, customer needs; increasingly considered basic to any well-run business. Many large U.S. firms had own departments by 1920s. Major methods in use by 1920s: • Study of government, trade association, university reports, whose quality improved continually. • Analysis of firm sales records. • Development of market index numbers. • Test markets ("try-out," "trial" markets). • Surveying jobbers, retailers, consumers; some surveys used pretested questionnaires and hypothesis testing. U.S. and German questionnaire quality often superb. • Statistical analysis of firm and industry performance, demand forecasts.	• Bibliographisches Institut publishing firm (Germany) used geneological and nobility directories to compile mailing and call lists for lifestyle-defined market—1870s. • Velhagen and Klasing publishing firm (Germany) analyzed demographics of customer lists—1880s. • Market research departments established by U.S. Rubber Co., Swift & Co., Curtis Publishing Co., 1910–1920. • General Motors tied production to good short-run sales forecasts—1920s.	Bartels (1976, Ch. 7) Converse (1930, Ch. 33) Egbert, Holbrook, and Aldrich (1931, Part 6) *Distribution in the United States* (1930) Fullerton (1985) Shaw (1916, Ch. 14) Sloan (1965, p. 128–39) Simons (1924, p. 9ff)
	Product design by skilled stylists—use of shape, color, and texture to enhance appeal.	• AEG Electrical Co. (Germany) hired famed artist P. Behrens to oversee product design—1907.	Pulos (1983)

TABLE 1 (continued)

Marketing Function	Producer Activities and Initiatives	Examples	References
Distribution	*Producer-owned "branch houses"* took over wholesale functions in some industries in U.S.A., allowed direct distribution to retailers.	• Major users included farm implement manufacturers, big meat packers (Armour, Cudahy, Swift, and Wilson each had 400–500), National Biscuit Co.	Breyer (1931) Ivey (1921, Ch. 1)
	Producer-owned retail stores, producer-franchised retail stores allowed direct sale to consumers.	• Pioneered by Singer in mid-1800s. Specialty clothing manufacturers, some shoe firms, A. G. Spalding sporting goods firm used by 1920s. Gates Rubber Co. franchised tire stores.	Egbert, Holbrook, and Aldrich (1931, p. 509–31) Gates Rubber Co. (1918)
	Producer-owned freight cars—lessened reliance on sometimes-haughty U.S. railroads.	• Armour, Swift, Wilson, Cudahy (U.S.A.)	Breyer (1931)
	Producer-dominated cartels, especially in Germany, established to ensure channel domination.	• Exchange Union of German Booksellers tightened publisher control over distribution, even over powerful department stores—1880s and 1890s.	Hirsch (1925)
	Producer-operated direct sale to consumers, mainly by door-to-door sales, also some mail order—used widely to sell innovative products.	• Used to open U.S. market for typewriters, cooking stoves, sewing machines, electric irons, aluminum cooking utensils, washing machines, kitchen cabinets. Same for German market for wine, cigars, bicycles, books, cigars, honey, butter; also mail order items.	Converse (1930, p. 419–25) Nieschlag (1939, p. 23–37)
	Careful *inventory analysis and management*—use of historical inventory trends to guide ordering; tie-ins between inventory and market analysis.	• American Radiator Co. based ordering for branch houses on past seasonal patterns in inventory—ca. 1917.	*Branch Standard Practice* (1917) Sloan (1965)
	Increased contact with independent retailers and chain stores—increased cooperation including use of stores' market research to strengthen producers' efforts. Also included helping retailers with sales training, window displays, literature, advertising, and demonstrations for customers.		Converse (1930)
Price	*Vertical price maintenance* became widespread. Established by law in Germany and Britain, much used in U.S. despite growing conflict with federal law—informal boycotts used to force noncomplying middlemen into line. Producers felt that price was too important to marketing to be under others' control.	• Kroener "Reform" of 1888 reaffirmed and strengthened publishers' power to determine price of books in Germany.	Hirsch (1925, p. 12–13)
	Manufacturer-supported consumer credit for costly items (cars, appliances, etc.) spread in U.S.A. to circumvent banks' conservatism.	• Pioneered by Singer in 1850s. • Willys-Overland and other auto firms established an automobile-financing institution in 1915. • General Motors set up GMAC in 1919.	Hounshell (1984) Sloan (1965, p.150–1, 302–12)

TABLE 1 (continued)

Marketing Function	Producer Activities and Initiatives	Examples	References
	"Market-plus" pricing became common—pricing that reflected the psychic value of branding and promotion, pricing above the commodity level.	• Almost any branded product, especially nationally and regionally advertised products. True in all three countries.	Shaw (1916, p. 246–53)
Promotion	*Company salesforces*—many trained in the best available methods (methods themselves improved markedly during the period). Many salespeople carefully supervised, supported with displays, advertising, direct mail followups, advertising specialties to bestow upon prospects. Some did missionary selling. Technical firms used sales engineers. Nearly all medium and large firms had own salesforces by 1920 in all three countries.	• German firms known for training salespeople to work effectively in overseas markets. • Hampshire Paper Co., American Radiator Co., Goodyear Tire Co., and Delco had substantial sales manuals (some in looseleaf for easy updating) and direct-mail support organizations. Hampshire Paper stressed that salespeople were "advisors" who helped solve prospects' problems.	*Branch Standard Practice* (1917) *A Course in Salesmanship* (ca. 1915) Goddard (1889, p. 48–9) *Manual of Sales Promotion* (1920) Redlich (1935) *Selling Delco Light* (ca. 1925) Simons (1924)
	Advertising by producers expanded enormously—producers assumed role of communicating with end users, building awareness and appeal for their products. Advertising expansion included direct mail and cooperative advertising.	• McCormick built part of success on heavy advertising of its farm implements—from mid-1800s. • Soap firms heavily into advertising from 1870s—Lever and Pears in U.K., Procter & Gamble in U.S.A., Henkel in Germany. • U.S. automobile industry heaviest advertising spender of any industry by 1915—people attributed much of its rapid growth to advertising.	Fullerton and Nevett (1986) Presbrey (1929) Redlich (1935)

of other products having general appeal" (p. 225, italics added). Where were the severely limited product lines that the Production Era interpretation insists were the only items on the market then?

Certainly not all producers were or became active marketers; perhaps even a numerical majority did not. However, the pace of growth and the favored style of enterprise were increasingly set by those who did, by firms that could apply focus, intelligence, and drive to both production *and* marketing. The credo of such firms was expressed by Shaw in 1916 (p. 104).

> Today the progressive business man makes careful, intensive studies not merely of the consumer's recognized wants but of his tastes, his habits, his tendencies in all the common activities and relations of life. This he does in order to track down unconscious needs, to manufacture goods to satisfy them, to bring these products to the attention of the consumer in the most appealing ways, and finally to complete the cycle by transporting the goods to him in response to an expressed demand.

These firms realized that production was an element of marketing and marketing an element of production. They were enormously successful firms like Unilever in Britain, General Electric and Singer in the U.S., and Henkel in Germany.

Some of the successful firms that traditionally have been typecast as production-oriented turn out to have been active in marketing as well. The great example is Ford, the most renowned of all mass producers. Henry Ford began with the vision of a car that would meet the needs of the broad, still substantially rural, populace, then figured out a way to produce it (Rae 1984, p. 32). Based on personal observation and creative insight—then as now basic marketing tools—Ford's vision was an accurate reflection of a widely held and deeply felt need. Nothing else can explain the heartfelt adulation of the man by tens of millions of people for decades. Ford's insistence on offering cars only in black, often cited as indifference to market needs, actually was intended to keep down production costs to meet his market's *strongest* need—a truly affordable, reliably working, automobile (Converse 1930, p. 1006). Ford knew there were other tastes; he purchased the Lincoln Motor Company around 1920 to meet one of them. Ford advertised aggressively, cultivated publicity with enormous skill and success, and at the height of his domination of the auto market

had a six-volume sales manual prepared to help his dealers cope with "competition from the outside" (Prentiss 1923, vol. 1, p. 1).

The Concept Slights the Growth of Important Marketing Institutions

By the assertion that the only demanding task of business before 1930 was physical production, the Production Era notion not only undervalues producers' marketing efforts, but also slights the development of several major institutions of modern marketing. Table 2 enumerates and describes these institutions, which revolutionized the structure of marketing life. Most of the institutions of marketing in use in 1870 seem remote to us now; those that had developed by 1930 do not—much of today's marketing practice is conducted through them.

The new institutions enabled producers to carry out their ambitious marketing programs. Advertising agencies helped generate awareness and desire for products. Better physical distribution and more responsive wholesaling helped circulate products quickly and extensively. New retail institutions made the products readily available and enticing to buyers.

The new institutions also had a reforming effect on older ones. One of Germany's premier marketing scholars, Robert Nieschlag (1959), has shown how the advent of new distributive institutions forced existing ones to become more efficiently managed and responsive to customer needs to defend themselves against the newcomers. The same effect occurred on both sides of the Atlantic. In Britain, for example, competition from department stores forced other retailers to curtail the once-pervasive misrepresentation of goods (Beable 1925, Ch. 7).

Rational and efficient management was a hallmark of the new marketing institutions. Formal planning and training, use of cost accounting, and careful attention to sales and inventory figures became common. The many large, well-run department stores, noted a trade writer of the time (Phillips 1905, p. 12), "are not the result of chance, but [rather] there is a vast machinery behind it which directs and controls." The "machinery" behind the fast-spreading chain stores of those decades was even vaster. Understanding and satisfying customers were emphasized by managers of the new retail institutions. For example, the goal of the period's most influential and prestigious retail institution—the department store—was to be:

> The system that dresses the windows with attractive goods, that provides the special bargains, that furnishes such a variety of goods comprising nearly everything that people wear or use, that gives a courteous and agreeable service under all conditions, that provides a place to rest when fatigued, . . . that delivers all purchases promptly, and if a mistake has been made in the selection, or for any reason goods bought are not satisfactory, presents no difficulty in their being exchanged or the money refunded (Phillips 1905, p. 12).

The president of the Woolworth chain intoned, "Every move on our part is determined by what the customer wants. We let the consumer do our buying and selling" (quoted by Sheldon and Arens 1932, p. 114).

Such striking advances in retailing were matched by those in other areas of marketing. Contemporaries were especially impressed by the progress of advertising (see Paneth 1926; Presbrey 1929). It is easy to understand why. There is a vast difference between the crude-looking magazine ads of the 1870s and the visually and verbally stunning ones of the 1920s. Fox (1984) argues that American advertising had more influence over people in the 1920s than it has had before or since. No political propaganda has ever equalled the effectiveness of the World War I propaganda, to which the British advertising industry contributed heavily.

American advertising agencies, from humble origins in media brokering in the mid-nineteenth century, had by 1910 become leaders in devising and encouraging the use of market research, customer-oriented product design, and enticing packaging. Some conducted experimental research into the "psychology" of advertising—topics such as recall, recognition, comprehension, repetition, ad location, and the effects of different type styles and colors (Poffenberger 1925). These topics and the methods of precise measurement and experimentation that were developed to investigate them remain basic to advertising research today. British advertising people were aware of the American advances, though not all used them (Nevett 1982, Ch. 8). In the German-speaking world, the astonishingly sophisticated work of the Austrian professor Mataja (1916, 1926) spread and built upon the best American work.

Summary: There Was No Production Era

The Production Era concept is clearly untenable. No such era existed. An "era" should capture the primary trends of a period of time. The Production Era notion not only ignores well-documented demand trends, but also the supply trends that resulted in a wide variety of items in most product classes. It obscures the trend toward proactive marketing by producers and the trend toward the establishment of significant new marketing institutions. In sum, it does not subsume nearly enough of the available evidence. Its widespread acceptance has cut us off from our rich marketing heritage.

Were There Sales and Marketing Eras?

The evidence arrayed against the Production Era concept also weakens the conventional belief that there

TABLE 2
Development of Institutions and Methods of Modern Marketing, 1870–1930

Institution/ Method, Date of Origin	Characteristics and Impact on Marketing	Changes During Period	References
	Physical Distribution		
Air freight, 1920s	Mainly in U.S.A. Used to ship repair parts, rush orders of valuables, some apparel.	Just getting underway in 1920s.	Converse (1930, p. 63)
Container (for freight), 1920s	Mainly in U.S.A. Like present-day container, a large steel bin whose use eliminated much loading and unloading. Shipped by truck and rail.	Just getting underway in 1920s.	Converse (1930, p. 79)
Parcel post, 1870s	Reliable shipping of small packages. Allowed large-scale development of mail order business in all three countries.	Incremental improvements in speed in U.S. and U.K. German Postal Service introduced refrigerator cars for mail-order butter in 1927.	*Distribution in the United States* (1930, p. 56) Nieschlag (1939) Nystrom (1930)
Pipelines, ca. 1920	Cheapest way to transport oil, natural gas.	Rapid growth in U.S.A.—100,000 miles of oil lines by 1930.	*Distribution in the United States* (1930, p. 56)
Refrigerated rail car, late 1860s, wide use from 1890s	Revolutionary impact on food marketing. Permitted fresh vegetables, fruit, meat to be raised in specialized areas, shipped great distances to market.	Use of refrigerated ships vastly widened international food trade. Refrigerated trucks introduced.	Breyer (1931, Ch. 13) Teuteberg (1982)
Truck freight service, 1900–1910	Used mainly for short hauls, especially LCL hauls, for store deliveries, to complement rail. Biggest use in U.S.A. Much more flexible than railroads, better than horse-drawn carts.	Very rapid growth during 1920s in U.S.—3 million trucks in service by 1928. Some intercity use by 1930.	Converse (1930, Ch. 3)
	Distributive Institutions and Methods		
Cash-and-carry sales, 1908	Sales for cash only. Cut cumbersome and costly retail credit granting, allowing lower prices and faster service. Used mainly by grocery stores in U.S.	Adopted by most chain stores in U.S.	Converse (1930)
One-price selling, mid-1800s (even earlier in U.K.)	Item sold to all at same price. Ended inveterate higgling of old-style retailing; transformed shopping from a contest of will and wit among quasi-antagonists to a potentially pleasurable experience. Made retailing faster, more efficient, more predictable.	Spread widely by chain stores and department stores, also adopted in defense by many independent retailers.	Beable (1925) Ivey (1921, p. 59)
Self-service, 1916 (possibly some earlier)	Customer served self, no counter salespeople needed. A revolution—cut retailer costs in many cases, enabled shoppers to go faster. Allowed low price appeals. Vastly increased importance of advertising, packaging, store display.	Widely adopted by U.S. grocery chains and independents. Some stores adopted then dropped it—found better for convenience than shopping goods.	Converse (1930, Ch. 16)

TABLE 2 (continued)

Institution/ Method, Date of Origin	Characteristics and Impact on Marketing	Changes During Period	References
Vending machines, 1880s	Coin-operated robots, invented in Europe. Opened new source of convenience goods for consumers. Used to sell gum, candy, cigarettes, even books (in Germany). Refrigerated and "talking" machines in use in 1920s.	Several hundred thousand in use in U.S. by late 1920s, proportionately extensive use in Britain and Germany.	Nystrom (1930, p. 343–4)
Mail order retailing, pre-1800 but modern begins with 1870s parcel post	Major agent of demand stimulation for innovations. Enabled entrepreneurs to bypass passive retailers. Important to rural market in U.S., where Sears and Ward dominated on strength of immense selection and low prices. Much narrower product lines in U.K. and Germany, but also low price appeals.	Some decline in U.S. by 1920s as rural population declined and reached stores by car. Continued to grow in Europe.	Ivey (1921, p. 100ff.) Nieschlag (1939) Worthy (1984)
Chain stores, mid-1800s but main growth post-1900.	Standardized operations. Used specialists in location, inventory control, displays, employee training; rational inventory and ordering policies; careful analysis of sales records, use of volume buying. Often attracted more able and ambitious people into retail management than was common then. Powerful use of low price appeal, display. Forced all retailers to manage better.	Biggest expansion in U.S.A. but grew in number in U.K. and Germany also. From 4% of retail sales in U.S. in 1921 to 17.6% in 1928. Generated organized political opposition from numerous small independent merchants.	Converse (1930) Nieschlag (1959, p. 198–210) Worthy (1984)
Department store, ca. 1850	Pioneer institution of modern retailing. Dominant store of the time. Tight internal management, systematic purchasing, rational inventory management, much direct buying from manufacturers. Frequently took "the lead in feeling and meeting public wants" (Converse 1930, p. 610) through observation and formal research, encouraged novelty-seeking behavior. Catered especially to women, created modern "shopping" behavior norms. Great attention to display, layout, overall atmosphere, employed specialists in such areas. Purchasing, pricing, and managerial policies had great influence on other retail institutions. Popularized "customer is always right" philosophy.	Grew in number and importance in all three countries. Built magnificent downtown palaces rivaling the largest public buildings by 1910; some joined in chains by 1920s. Upgraded decor, services, and assortments from low-price origins, yet strove through "basements" (U.S.A.) and big sales (U.S. and Europe) to maintain high-value image. Caliber of managers and selling staff improved by 1920s; said to have been spotty earlier, especially in U.S.	Beable (1925) Converse (1930) Goddard (1889, p. 105) Lux (1910) Nieschlag (1959, p. 169–97)
Modern wholesalers, 1880s	Included drop shippers, cash-and-carry wholesalers, cooperative wholesalers—new institutions developed to service manufacturers and retailers who were striving to circumvent traditional merchant wholesalers. New-style wholesalers concentrated on assembling and dispersing goods.	Enormous decline of merchant wholesalers. Some merchants survived by developing jobber brands, others by adopting trained salesforces to aid retailers.	Chapman (1979) Ivey (1921, Ch. 2–4) Nieschlag (1959, p. 355–65)

Continued overleaf

TABLE 2 (continued)

Institution/ Method, Date of Origin	Characteristics and Impact on Marketing	Changes During Period	References
Other Institutions and Methods			
Marketing education, 1890s	Formal, university-level education in marketing. Established in Germany and U.S.A. to help businesspeople cope with perceived increasing difficulty and complexity of marketing. Strong belief that marketing could be a systematic science. British lagged, which hurt them. Personal selling and advertising attracted most attention. Literature emphasized understanding customers, systematic planning.	First German trade university 1898, seven by 1914. First U.S. marketing courses 1902; widespread by 1920s. Rapid growth in number of students, sophistication of discipline. By 1920s, growing use of experimentation, system analysis, decomposition of complex problems, statistics.	Bartels (1976) Minoprio (1922)
Advertising agencies, Britain 1786, U.S.A. 1841, Germany 1850s	In U.S. and Britain did creative work as well as media analysis and placement by 1900, in Germany mainly media placement into 1930s. American agencies major marketing consultants after 1900. Did research for clients, helped design products and packages. Also did "scientific" research in psychology of advertising and promotion.	Very rapid growth as use of advertising exploded. More use of market and media research, some copy testing by 1920s.	Boss (1886) Fox (1984) Pope (1983) Redlich (1935) Sampson (1874)

was a hard-sell-oriented Sales Era between 1930 and 1950 followed by the birth of true marketing only in the post-1950 Marketing Era. Let us begin with the Sales Era.

The development of modern marketing was well underway by the time the Great Depression is supposed to have ushered in the Sales Era. Certainly the poor economic conditions may have motivated some desperate firms to pursue hard selling; some of the sales manuals in use then emphasized dominating the buyer to the point of mesmerization (e.g., *Selling Delco Light*, ca. 1925). Other sales literature, however, stressed a problem-solving, consultative approach and warned against the short-sightedness of the squeeze sell. "Obvious pressure to buy may lose the customer for the future even though it makes the immediate sale," wrote the authors of a manual used in both the U.S. and Britain (Comyns and Jones 1927, p. 147); Tosdal concurred (1925, p. 7, 26, 54). With buyers in increasingly short supply, the businessperson of the 1930s could scarcely afford to alienate them.

Actually, the astute businesspeople of the time—the ones who survived that worst of all economic downturns—knew very well that it was more important than ever to understand and to cater to buyers. A buyer orientation is evident in the trade periodicals of the U.S. auto industry, for example ("GM Query Seeks Buying Reasons" 1932; Neil 1933; Shidle 1933). It underlay the two most significant marketing developments of the 1930s—the supermarket and the "consumer engineering" movement. "Consumer engineering," a phrase coined by Sheldon and Arens (1932), meant designing new and redesigning existing products to meet carefully researched consumer needs. Practiced in Germany and Britain as well as the United States, consumer engineering has been analyzed recently by the historians Heskett (1980), Meikle (1979), and Pulos (1983).

The supermarket did not spread to Europe until after 1945, but it was an instant success in the United States from the opening of the first stores in about 1930. Its success had nothing to do with a hard sell—the stores featured self-service and relied on low prices to attract customers. The supermarket met the need of the U.S. public for inexpensive groceries. Neither the supermarket nor the consumer engineering movement is subsumed by the Sales Era concept. Like the Production Era, it is untenable in light of the now-known historical evidence.

Finally, because overwhelming evidence shows that much of what we consider to be real and modern marketing was in fact devised and used widely long before 1950, the Marketing Era notion that such marketing began only 30 years ago is far off the mark. We need a historically accurate periodization framework of modern marketing's development over time.

Toward a New Conceptualization of Modern Marketing's Historical Development

Models of Marketing Evolution

Any periodization framework is based on a model of how change occurs over time. The model may or may not be explicit. The Production-Sales-Marketing Era framework is built on a "catastrophic" model, that is, one in which major developments take place suddenly, with few antecedents. In the case of modern marketing, however, the evidence argues strongly against such a model; such marketing clearly did not develop from nothing overnight.

A diametrically opposite model is implicit in the work of some scholars of marketing history (e.g., Hollander 1986); it implies that marketing existed far back in time in much the same form in which it does today. This "continuity" model is much closer to the known factual evidence about past marketing than the catastrophic model. Its great virtue is to highlight the existence and intelligence of past marketing. However, it understates the real *changes* that have occurred during marketing's evolution. These changes have affected both the pervasiveness and societal impact of marketing activity and the practices through which the activity has been expressed. Saying that the roots of modern marketing go back in time for a century and more does not mean that marketing in 1886 was identical to that in 1986; it means only that some practices used in 1986 represented *further development* of those used a century before. Some examples follow.

- Nevett (1985) shows that the need to do media research was felt and acted upon by advertisers and their agents in mid-nineteenth century Britain—but the methods used were rudimentary in comparison with those developed since.
- Alexander's (1970) study of British retailing shows that such now-familiar practices as one-price pricing and enticing window and shelf displays were employed by some urban shops before 1850—but many of the other retail practices and institutions of that time have vanished.
- Redlich (1935) traces most twentieth century advertising vehicles to sixteenth century origins—but demonstrates that twentieth century advertising is substantially different in its strategies, pervasiveness, and impact.

At any point in the past, therefore, marketing was different from what it is today; the farther back in the past, the greater the differences are likely to have been. The continuity model obscures such differences and the catastrophic model exaggerates them.

The model proposed here, termed the "complex flux" model, avoids these extremes. Reflecting the philosophy of mainstream historical research, it posits modern marketing's evolution as a complicated and fluid process involving simultaneous dramatic change, incremental change, and continuity. It posits marketing systems that have tended to grow larger and more intricate as new methods and institutions have joined older ones. Different rates and intensities of change in different parts of a marketing system are assumed. Some parts may change little if any over time; scholars of retail evolution have noted the persistence of old, supposedly outmoded, institutions amid the dramatic growth of new ones (McNair and May 1976, p. 3, 4, 98; Nieschlag 1959).

The complex flux model allows for dramatic change. Unlike the catastrophic model, however, it stresses that even dramatic change is based on and linked to past phenomena. It incorporates Schumpeter's (1936, p. 64) dictum that "every concrete process of development finally rests upon preceding development." Innovative development in marketing is based in part on the creative use of preceding practices and concepts. Markin (1968, Ch. 2), for example, argues that the creators of the first supermarkets drew upon the earlier ideas of self-service, cash and carry, and one-stop shopping. There are always links between past and present marketing.

A final aspect of the complex flux model is that it explicitly rejects the equation of "development"—or "evolution"—with "improvement." Development brings changes, which may or may not be improvements; this is true whether improvements are judged from the microperspective of a firm's marketing prowess or from the macroperspective of societal wellbeing.

New Periodization

The complex flux model underlies the following new periodization of modern marketing's historical development. The development took place through four eras.

Setting the stage: The Era of Antecedents. This long gestational period began about 1500 in Britain and Germany and during the 1600s in North America as the continent began to be settled. Braudel (1982) and Sombart (1967, 1918–1928) give the best accounts. Important breakthroughs in business thinking and practice were made in a very difficult environment—innovations without which modern marketing could not have developed later (Schumpeter 1936, p. 87). At the beginning of the period, when capitalism was still flickering into life, the dominant value system held commerce to be little better than criminality, most of the basic facilitating institutions of finance

and distribution did not yet exist, and means of production and transportation were primitive. Throughout the period powerful political, religious, and social forces resisted almost any increase in the prevailing low levels of consumption; 75 to 90% of the populace was self-sufficient, rural, and viscerally opposed to change.

Though they were unable to develop a mass market, the early capitalist businesspeople did cultivate markets for luxury goods among the nobility and the small but growing urban middle class, for armaments among governments, and for textiles and some staples among 10 to 25% of the population. Many of these businesspeople were shrewd, intuitive marketers who prospered—distribution could be lucrative.

As capitalist attitudes took firmer shape and spread, profit-making commerce became more respectable (Hernandez 1985; Hirschman 1977). Businesspeople originated the early versions of key distributive institutions—fixed location retail shops, advertising, wholesale trade, warehouses, and traveling salespeople. Facilitating financial institutions also developed—banks, stock exchanges, paper money, and formal credit mechanisms. Collectively, these institutions, and the genteel yet persistent methods of demand determination and stimulation used then, were the direct antecedents of modern marketing.

Modern marketing begins: The Era of Origins. Starting in Britain about 1750 and in Germany and the U.S. around 1830, this period marked the beginning of *pervasive* attention to stimulating and meeting demand among *nearly all of society*. These traits have characterized modern marketing. The period began with the onset of the Industrial Revolution in production and of the highly aggressive attitudes of high capitalism in business life. Improvements in production and transportation (e.g., railroads, steamships), coupled with the start of a tradition-shattering migration of the rural masses to urban areas, provided the potential for large-scale markets.

The potential did not realize itself; businesspeople had to work to realize it. Building on the marketing institutions and know-how of the previous era, they promoted vigorously, targeted promising groups for special attention, and designed products primarily to appeal to potential buyers. Competition intensified.

The pervasiveness and impact of marketing activities increased. Marketing began to be one of the central activities of everyday life. Britain was the leading creative force during this era. Its energetic new style of marketing was just as influential (and as imitated) among businesspeople in Germany and the United States as were its innovations in production and transportation. The Era of Origins was over in Britain by 1850, but continued in the other two countries until about 1870.

Building a superstructure: The Era of Institutional Development. Underway in Britain from 1850 and in Germany and the United States from about 1870, this era lasted until 1929 in all three countries. During this period most of the major institutions and many of the practices of modern marketing first appeared, as shown in Tables 1 and 2. Their appearance followed logically from events during the previous era: changes in production and transportation necessitated changes in marketing practices and, especially, institutions (Braitwaite and Dobbs 1932; Hirsch 1925). Mass production required mass stimulation of demand. The increasing physical separation between producer and buyer necessitated institutions through which the producer could effectively understand, communicate with, and distribute to large numbers of faraway strangers who were potential customers.

What was required was realized through advertising, market research, better physical distribution, and expanded retailing. The new institutions and practices helped make marketing a major element of daily life for most of the population; the descendants of self-sufficient peasants were consumers in the modern sense. People at the time were struck by the growing pervasiveness of advertising and the grandeur of department stores. They noticed that marketing activities occupied more of the workforce. A conservative reaction against modernity made marketing (especially advertising) a prime target, resulting in some regulatory restraints as well as a body of criticism that echoes to this day (Fullerton and Nevett 1986), but marketing continued to thrive.

Testing, turbulence, and growth: The Era of Refinement and Formalization. From about 1930 to the present in the three nations, marketing has continued to develop through turbulent episodes and prosperous calm alike. It has survived severe attacks ("consumerism," other distrustful movements) during the Depression decade of the 1930s and again during the late 1960s to mid-1970s. In Germany, attacks continue to come from vocal political groups like the Greens.

Distribution systems, especially retailing, have undergone rapid, even convulsive changes, including strong challenges from new institutions such as the supermarket, the discount house, and the planned shopping center. The era's most distinguishing characteristic, however, has been the further development, refinement, and formalization of institutions and practices that were developed earlier. Containerization and air freight are examples in the area of physical distribution; both were in use by 1929, but have been much expanded and developed since. Market analysis is another example. It is not new in the period, yet methods of gathering, measuring, and evaluating market information have been improved greatly.

We now are able to subject conventional wisdom and rules of thumb to rigorous analytical tests. Soon we may be able to determine which half of the advertising dollar is wasted and which not.

As marketing education has become highly developed in the U.S. and more developed in Germany and Britain, marketing knowledge has become more formalized. A large body of normative knowledge has become readily available that once could be acquired only slowly and informally through experience, if at all.

Among businesses, serious marketing activities have been long underway; the big change in recent decades has been that these activities have become organized formally into marketing departments in firms on both sides of the Atlantic. The marketing concept has become a formally articulated firm goal, whereas earlier it had been practiced more than we realize but not articulated (Hollander 1986). It would be simplistic to assume, as often has been done, that the formalization of marketing in itself has been a major advance. Taking U.S. firms as an example, we see that during the past two or three decades many top managers have been preoccupied with financial or political/legal issues—and consequently distracted from the clear and steady focus on marketing extolled by the marketing concept. Marketing departments do not necessarily function any better than sales departments with savvy marketers working in them. Some firms, even whole industries, have shown serious lapses in marketing acumen—the German camera industry and the U.S. and British auto industries are examples. Veteran advertising practitioners argue with justification that the quality of copy in American and British print ads has deteriorated during the past several decades.

Conclusion

The development of modern marketing in the three major Western countries studied has been long and complex—much more protracted and complicated than is expressed by the current periodization scheme of the Production, Sales, and Marketing Eras. Most of our modern marketing practices began to develop much earlier than is commonly believed—certainly before 1950, usually before 1930, and, especially in the British example, in important respects before 1850. The antecedents of modern practices, moreover, go back to the time of Columbus.

To replace the framework shown to be inadequate, an alternative periodization scheme is suggested. It better incorporates the evidence available now. Because much remains to be discovered about the historical development of modern marketing, however, the scheme is presented as tentative. Further research is encouraged. Systematic investigation of the literally thousands of published firm histories, for example, might produce modifications, as might large-scale research in surviving firm archives. Whatever the modifications, one conclusion cannot be challenged: modern marketing has a rich heritage worthy of our attention.

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[37]

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Scale, Scope, and Organizational Capabilities*

This chapter reviews the continuing similarities in the creation and evolution of the modern industrial enterprise in the United States, the United Kingdom, and Germany between the 1880s and the 1940s. Although the synthesis is taken wholly from information given in the following chapters, it is presented here as an internally logical argument, or a dynamic model, to describe and explain the beginnings and powerful growth of this institution. Very few references are made to specific historical situations. The definitions, concepts, generalizations, and explanations presented here are used throughout the book. They can help make the complex massive historical details in later chapters more understandable and the comparisons between industries, countries, and time periods more precise. The complexities, variations, and exceptions found in the detailed historical story can thus fill in the broad contours outlined in this chapter and provide a more accurate and more detailed, though still over-generalized, historical map of this evolving institution.

The Modern Industrial Enterprise

Let us begin by defining the institution. I consider the modern industrial enterprise a sub-species of the modern business enterprise which I defined in *The Visible Hand*. There I pointed out that the modern business enterprise has two characteristics. It contains a number of distinct operating units and is managed by a hierarchy of full-time, salaried executives. The modern *industrial* enterprise is the sub-species that carries out modern production processes. It involves, however, more than a production function. It is a "governance structure," to use Oliver Williamson's term.[1] It governs units carrying out different production functions as well as distribution and research functions and so

* This essay is from Chandler's forthcoming book, to be published by Harvard University Press, entitled *Scale and Scope*, and is included here by courtesy of the publisher, Harvard University Press. Copyright © 1988 by the President and Fellows of Harvard College. Some small editorial changes may be made in the table of contents and in the chapter prior to their publication in *Scale and Scope*.

1. Most succinctly defined in his "The Modern Corporation: Origins, Evolution, Attributes," *Journal of Economic Literature* 19 (December 1981):1539–1544; also in his "Organizational Innovation: The Transaction Cost Approach," in Joshua Ronen, ed., *Entrepreneurship* (Lexington, 1983), ch. 5.

integrates all these activities. In such an industrial enterprise each unit—a factory, a sales or purchasing office, or a research laboratory—has its own administrative office, its own managers and staff, its own set of books, as well as its own resources in terms of physical facilities and personnel to carry out specific functions involved in production or distribution of a specific product in a specific geographical area. Theoretically, each unit could act as an independent business enterprise. The activities of the managers of these units (lower-level managers) are monitored and coordinated by mid-level managers who, in turn, are monitored and coordinated by an individual or a small team of full-time top executives, who plan and allocate resources for the operating units and the enterprise as a whole (see Chart 1). The decisions of top managers normally are ratified by a board of directors, legally defined as representatives of the owners.

Nearly always such boards include inside directors (top managers) and outside directors (part-time representatives of the owners). Where the owners are an identifiable group of individuals or institutions, their representatives and the inside directors select the company's top management. Where the owners are widely scattered, or have little interest in the details of the company's operations, the inside directors normally select the outside directors. Together, they select the successors to top management.

Thus, the modern industrial firm can be defined as a collection of operating units, each with its own specific facilities and personnel whose combined resources and activities are coordinated, monitored, and allocated by a hierarchy of middle and top managers. Only the existence and capabilities of the hierarchy can make the activities and operations of the whole enterprise more than merely the sum of its units.

As the definition suggests, the size of the firm, its managerial team, or hierarchy, and the nature of the resources it controls are directly related to the number of its operating units. It is the number of administrative units rather than total assets or the size of working force that determines the number of middle and top managers, the content of their tasks, and the complexity of the institution they manage. Size in terms of assets, market value, or labor force is the most readily available statistical proxy for such administrative complexity; but statistics cannot convey the complexity, nor the nature and functions of the institution.

The central focus of this institutional history must then be to examine and to explain how and why the institution grew by adding new units—units that carried out different economic activities, operated in different geographical regions, and handled different lines of products.

The underlying explanation is that manufacturing enterprises became multifunctional, multiregional, and multiproduct because the addition of new units permitted them to maintain a long-term rate of return on investment by reducing overall costs of production and distribution, by providing products that satisfied existing demands, and by transferring resources to more profitable

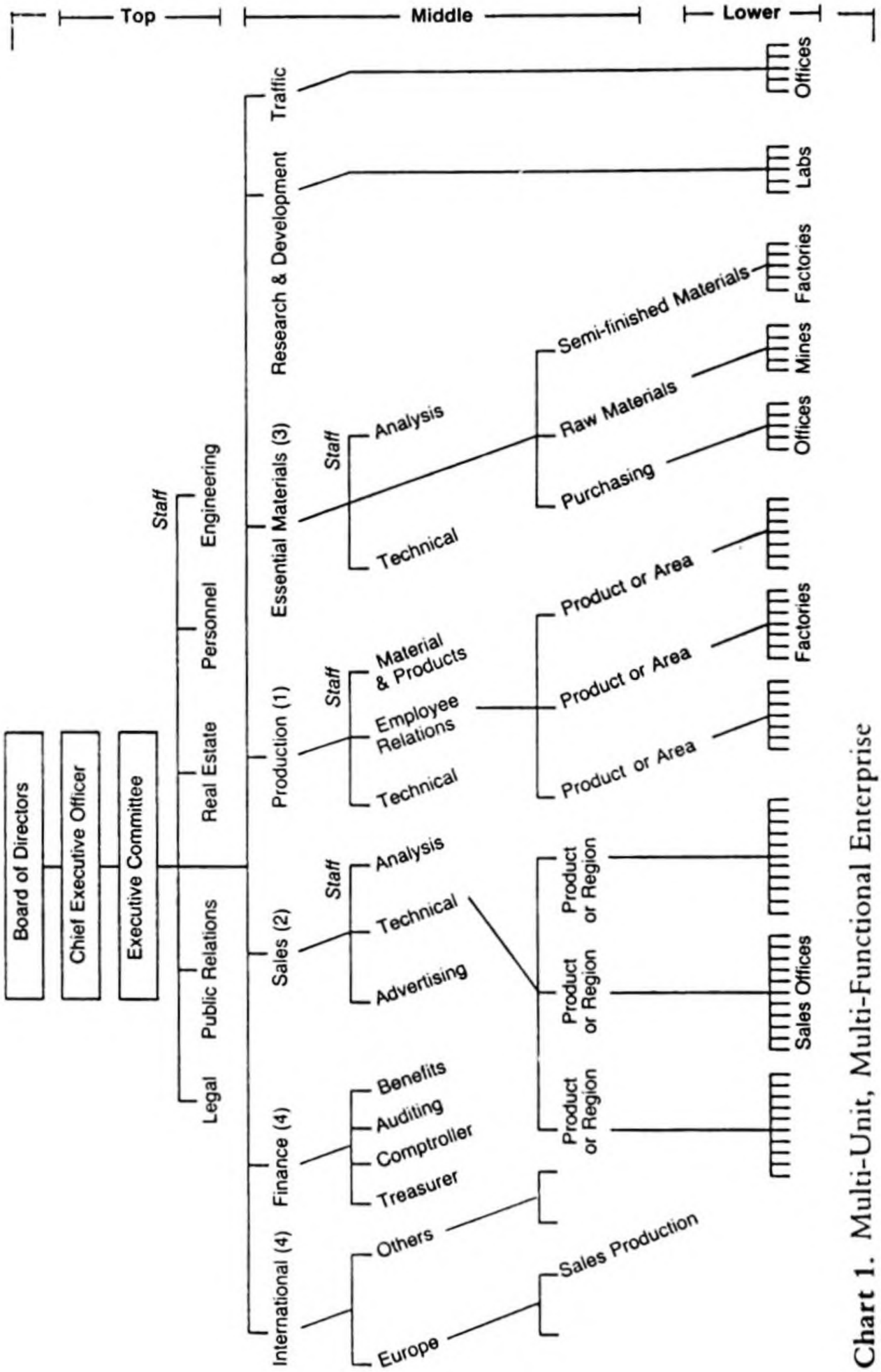

Chart 1. Multi-Unit, Multi-Functional Enterprise

lines when returns were reduced by competition, changing technology, and changing market demand.

There were, of course, other reasons for an industrial enterprise to invest in new units of production and distribution; e.g., strategic reasons — to assure access to markets and supplies or to prevent competitors from obtaining such access, to gain control over competitors, to eliminate competition in other ways, or merely to reinvest retained earnings. In more recent years the reasons were often financial: to improve the firm's overall tax position, to alter the price of its securities, to carry out comparable financial manipulations, or merely to extend its portfolio of investments. Furthermore, such growth might have been the means for management to acquire greater control over its working forces, or the result simply of the desire for personal aggrandizement and power.

Nevertheless, I argue that whatever the motivation for management to invest in new operating units, the large industrial enterprise has rarely continued to grow or maintain its competitive position *over an extended period of time* unless the addition of new units (and to a lesser extent, the elimination of old ones) permitted the hierarchy to reduce costs, to improve functional efficiency in marketing and purchasing as well as production, to improve existing products and processes and to develop new ones, and to allocate resources to meet the challenge and opportunities of ever-changing technologies and markets. Such a process of growth provided this bureaucratic institution with the internal dynamic that permitted it to become powerful quickly, and to do so in a period of the swiftest technological and economic change that the world has seen.

The reductions in costs and efficient resource utilization resulted, the argument continues, from the exploitation of economies of scale in production and distribution and of economies of joint production or joint distribution, or from reduction in costs of transactions involved.

Scale economies are those that result when increased volume of a single product or service through a single set of facilities reduces the unit cost of production and distribution.

The economies of joint production or distribution are those resulting from the use of a single set of facilities to produce or process more than one product or service. For the economies of joint production or joint distribution I use the increasingly popular term, economies of scope.[2]

I consider transaction costs to be those involved in the transfer of goods and services from one operating unit to another. Where these transactions are carried out between firms or between individuals, they usually involve the

2. David Teece, "Economies of Scope and the Scope of the Enterprise," *Journal of Economic Behavior and Organization* 1 (September 1980):223–247; John C. Panzar and Robert D. Willig, "Economies of Scope," *American Economic Review* 71 (May 1981):268–272; See also, Elizabeth E. Bailey and Ann F. Friedlaender, "Market Structure and Multiproduct Industries," *Journal of Economic Literature* 20 (September 1982):1084–1148. The emphasis of this literature is on economies of scope in production, not in distribution.

transfer of property rights and are defined in contractual terms.[3] Where they are carried out within the enterprise, they are defined by accounting procedures. The costs of such transactions are reduced by a more efficient exchange of goods and services *between* units, whereas the economies of scale and scope result from the more efficient use of facilities and skills *within* such units.

Transaction-cost economies are, of course, closely related to those of scale and scope. The economies of scale and scope within a single unit permit that unit to expand the output of goods and services which, in turn, increases proportionately the number of recurring commercial transactions and contractual relations the enterprise must carry on with other operating units. If changes in the processes of production and distribution within units have a powerful impact on the nature of transactions between units as they are defined through contractual relations, so do changes in contractual relations affect the operations carried on within units.

Differences in economies of scale and scope in different industries and different time periods result from differences in technology of production and distribution and differences in the size and location of markets. Thus changes, particularly technological innovations in production and changes in market size, continually alter the economic environment (as differentiated from the political and social environment) in which the institution grows. So do changes in per capita income and demographic shifts, such as those from rural to urban areas and from city to suburb. External changes, by affecting the economies of scale and scope, alter contractual arrangements between units in production and those in distribution, finance, and other business activities.

The underlying argument of this study is that the impact of changing technologies and markets on economies of scale and of scope and on transaction costs — and on the organization created to exploit these economies — provides the most satisfactory answer to the basic historical questions of why the large multiunit industrial enterprise came when it did, where it did, and in the way that it did. It best explains why the institution appeared and continued to cluster in certain industries and not in others, and why it came into being by integrating units of volume production with those of volume distribution, and finally, why it continued to grow by becoming multifunctional and then, though certainly not in all cases, multinational and multiproduct.

3. Again, the definition comes most succinctly from Williamson, "The Modern Corporation," pp. 1547–1549, which builds on Ronald Coase's classic article, "The Nature of the Firm," *Economica* 4 (November 1937):386–405. In his piece Williamson states that "The criterion for organizing commercial transactions is assumed to be the strictly instrumental one of cost economizing. Essentially this takes two parts: economizing on production expenses and economizing on transaction costs. In fact, these are not independent and need to be addressed simultaneously." Thus, Williamson does not differentiate between distribution expenses and transaction costs and, in discussing the latter, focuses almost wholly on contractual relations. As Herman Daems has suggested, three types of transaction costs can be identified: contractual arrangements with customers, those with suppliers, and those with banks or other financial institutions or individuals.

Historical Attributes of the Modern Industrial Enterprise

The ability of the modern industrial enterprise to exploit fully the economies of scale, scope, and transaction costs illustrates the internal dynamic that accounts for its three most significant historical attributes. First, such enterprises appeared quite suddenly in the last quarter of the nineteenth century. Second, they clustered from the start in industries with much the same characteristics. Finally, they were born and continued to grow in much the same manner.

The historical experiences, related in great detail in the following chapters, explain the timing of the appearance of the institution. They also describe in as great detail the comparable patterns of beginnings and continued growth I briefly outlined in my introduction. Tables 1–4 list the industries in which the new enterprises first appeared and continued to cluster throughout the twentieth century.

Table 1 gives the location, country by country and industry by industry, of all the industrial corporations in the world which in 1973 employed more than 20,000 workers. (These industries are defined as the two-digit industrial groups as given in the U.S. Census Standard Industrial Classification, or S.I.C.). In 1973, 289 (72 percent) of the 401 companies were clustered in food, chemicals, oil, primary metals, and the three groups—non-electrical and electrical machinery and transportation equipment.[4] Ninety-one, or just under 23 percent, were in three-digit categories of six other two-digit classifications—three-digit classifications which had the same industrial characteristics as those two-digit classifications in which the 72 percent clustered. These included cigarettes in tobacco; tires in rubber; newsprint in paper; plate and flat glass in stone, glass, and clay; cans and razor blades in fabricated metals; and mass-produced cameras in instruments. Only 21 companies (5.2 percent) were in such two-digit categories as apparel, lumber, furniture, leather, publishing and printing, instruments, and miscellaneous.

A second point that Table 1 makes—one central to an understanding of the evolution of the modern industrial enterprise—is the predominance of American firms among the world's largest industrial corporations. Of the total of 401 companies employing more than 20,000 persons, over half (211 or 52.6 percent) were American. The United Kingdom followed with 50 (12.5 percent), Germany with 29 (7.2 percent), Japan with 28, and France with 24. Only in chemicals, metals, and electrical machinery did all the non-American firms outnumber the American ones by as many as four or five.

Table 2 shows that large industrial corporations had clustered throughout

4. A study by Herman Daems indicates these firms accounted for an impressive share of the non-Communist world employment in their industries. Of the broad industrial categories in which the large firms clustered—food, chemicals, petroleum, metals, and the three machinery S.I.C. groups—those firms employing over 30,000 accounted in all, except in food and non-electrical machinery, for from 39.5 percent to 72 percent of the world's total labor force in their industry. Herman Daems, and P. Cuypers, "Power versus Efficiency," in F. Caron, ed., *Entreprises et Entrepreneurs* (Paris: Sorbonne, 1983).

Table 1. The Distribution of the Largest Industrial Enterprises with More Than 20,000 Employees, by Industry and Nationality, 1973

SIC		U.S.	Outside of the U.S.	U.K.	Germany	Japan	France	Others	Grand Total
20	Food	22	17	13	0	1	1	2	39
21	Tobacco	3	4	3	1	0	0	0	7
22	Textiles	7	6	3	0	2	1	0	13
23	Apparel	6	0	0	0	0	0	0	6
24	Lumber	4	2	0	0	0	0	2	6
25	Furniture	0	0	0	0	0	0	0	0
26	Paper	7	3	3	0	0	0	0	10
27	Printing and Publishing	0	0	0	0	0	0	0	0
28	Chemical	24	28	4	5	3	6	10	52
29	Petroleum	14	12	2	0	0	2	8	26
30	Rubber	5	5	1	1	1	1	1	10
31	Leather	2	0	0	0	0	0	0	2
32	Stone, Clay, and Glass	7	8	3	0	0	3	2	15
33	Primary Metal	13	35	2	9	5	4	15	48
34	Fabricated Metal	8	6	5	1	0	0	0	14
35	Machinery	22	12	2	3	2	0	5	34
36	Electrical Machinery	20	25	4	5	7	2	7	45
37	Transportation Equipment	22	23	3	3	7	4	6	45
38	Instruments	4	1	0	0	0	0	0	5
39	Miscellaneous	2	0	0	0	0	0	0	2
—	Conglomerate	19	3	2	1	0	0	0	22
	Total	211	190	50	29	28	24	59	401

Note: In 1970 the one hundred largest industrials accounted for more than one-third of net manufacturing output in the United States and over 45 percent in the United Kingdom. In 1930 they accounted for about 25 percent of total net output in both countries.

Source: *Fortune*, May 1974 and August 1974.

the twentieth century in the United States in the same industrial groups in which they were concentrated in 1973. The pattern depicted in Tables 3 and 4 is much the same for the United Kingdom and Germany. Furthermore, data in the appendices document what is indicated here, that the American firms were larger, as well as more numerous, than those in other countries. Well before World War II, the United States had many more and many larger managerial hierarchies than did other nations.

Table 2. The Distribution of the 200 Largest Industrial Enterprises in the United States, by Industry[a]

SIC		*1917*	*1930*	*1948*	*1973*
20	Food	30	31	26	22
21	Tobacco	6	5	5	3
22	Textiles	5	3	6	3
23	Apparel	3	0	0	0
24	Lumber	3	4	1	4
25	Furniture	0	1	1	0
26	Paper	5	7	6	9
27	Printing and Publishing	2	3	2	1
28	Chemical	20	18	24	27
29	Petroleum	22	26	24	22
30	Rubber	5	5	5	5
31	Leather	4	2	2	0
32.	Stone, Clay, and Glass	5	9	5	7
33	Primary Metal	29	25	24	19
34	Fabricated Metal	8	10	7	5
35	Machinery	20	22	24	17
36	Electrical Machinery	5	5	8	13
37	Transportation Equipment	26	21	26	19
38	Instruments	1	2	3	4
39	Miscellaneous	1	1	1	1
—	Conglomerate	0	0	0	19
	Total	200	200	200	200

[a] Ranked by assets.

These tables also suggest (though only barely) basic differences within the broad pattern. For example, the large enterprise in the United States was to be found throughout the twentieth century in the production of both consumer and industrial goods. Britain had proportionately more large firms in consumer goods than did the United States; while the largest industrials in Germany (and also Japan) concentrated much more on producers' goods. Even as late as 1973 (as Table 1 shows), 13 of the 50 firms in Great Britain employing more than 20,000 persons were in the production and distribution of food and tobacco products; whereas Germany, France, and Japan each only had one. On the other hand, before World War II Germany had many more firms in chemicals and heavy machinery than did Britain.

Table 3. The Distribution of the 200 Largest Industrial Enterprises in the United Kingdom, by Industry[a]

SIC		*1919*	*1930*	*1948*	*1973*
20	Food	63	64	52	33
21	Tobacco	3	4	6	4
22	Textiles	26	24	17	10
23	Apparel	1	3	2	0
24	Lumber	0	0	0	2
25	Furniture	0	0	0	0
26	Paper	4	5	6	7
27	Printing and Publishing	5	10	6	7
28	Chemical	11	9	19	21
29	Petroleum	3	3	3	8
30	Rubber	3	3	2	6
31	Leather	0	0	1	3
32	Stone, Clay, and Glass	2	6	7	16
33	Primary Metal	35	18	24	14
34	Fabricated Metal	2	7	9	7
35	Machinery	8	7	10	26
36	Electrical Machinery	11	18	12	14
37	Transportation Equipment	20	14	20	16
38	Instruments	0	1	1	3
39	Miscellaneous	3	4	3	1
—	Conglomerate	0	0	0	2
	Total	200	200	200	200

[a] Ranked by sales for 1973 and by market value of quoted capital for the other years.

Economies of Scale and Scope in Production

How then to account for the fact that the modern industrial enterprise has always clustered in industries with certain characteristics, that it appeared at almost the same moment in history in the United States and Europe, and that it was created and continued to evolve along much the same lines in both regions?

Let us begin by examining the characteristics of the major innovations in production processes during the last quarter of the nineteenth century—innovations that created many new industries and transformed old ones. These

Table 4. The Distribution of the 200 Largest Industrial Enterprises in Germany, by Industry[a]

SIC		*1913*	*1928*	*1953*	*1973*
20	Food	23	28	23	24
21	Tobacco	1	0	0	6
22	Textiles	13	15	19	4
23	Apparel	0	0	0	0
24	Lumber	1	1	2	0
25	Furniture	0	0	0	0
26	Paper	1	2	3	2
27	Printing and Publishing	0	1	0	6
28	Chemical	26	27	32	30
29	Petroleum	5	5	3	8
30	Rubber	1	1	3	3
31	Leather	2	3	2	1
32	Stone, Clay, and Glass	10	9	9	15
33	Primary Metal	49	47	45	19
34	Fabricated Metal	8	7	8	14
35	Machinery	21	19	19	29
36	Electrical Machinery	18	16	13	21
37	Transportation Equipment	19	16	14	14
38	Instruments	1	2	4	2
39	Miscellaneous	1	1	1	1
—	Conglomerate	0	0	0	1
Total		200	200	200	200

[a] Ranked by sales for 1973 and by assets for the other three years.

processes were differentiated from earlier ones by *their potential for exploiting the unprecedented cost advantages of the economies of scale and scope.*

In the older labor-intensive industries, increases in the output of a manufacturing establishment came primarily from adding more machinery and more workers to operate the additional machines. In newer industries, output expanded by improving and rearranging inputs; by improving machinery, furnaces, stills, and other equipment; by reorienting the processes of production within the plant; by placing the intermediary production processes within a single works; and by increasing the application of energy (particularly that generated by fossil fuel).

The first set of industries remained labor intensive; the second became capital intensive. In such industries as apparel, textiles from natural fibers, lumber, furniture, printing and publishing — industries in which the large modern firm was relatively rare — improvements in equipment and plant design did bring economies of scale but not extensive ones; that is, they did not cause

a sharp reduction of unit costs. In these industries large mills, factories, or works had observable, but not striking, cost advantages over smaller ones.

In the late nineteenth century, in the more capital-intensive industries new production processes were invented or existing ones were vastly improved for the refining and distilling of sugar, petroleum, animal and vegetable oil, whiskey and other liquids; the refining and smelting of iron, steel, copper, and aluminum; the mechanical processing and packaging of grain, tobacco, and other agricultural products; the manufacturing of complex light, standardized machinery through the fabrication and assembling of interchangeable parts; and the production of technologically advanced industrial machinery and chemicals by a series of interrelated mechanical and chemical processes. In these capital-intensive industries, investment in new facilities greatly increased the ratio of capital to labor involved in producing a unit of output. Production units achieved much greater economies of scale (or scope)—that is, the cost per unit dropped much more quickly as the volume of materials processed increased. In these industries large plants operating at "minimum efficient scale" (that is, the scale of operation that brought the lowest unit cost) had a much greater cost advantage over smaller plants than was the case in industries using more labor-intensive technologies.[5]

These potential cost advantages, however, could not be fully realized unless a constant flow of materials through the plant was maintained to assure effective capacity utilization. If the volume of flow fell off, unit costs rose rapidly, because fixed costs remained much higher and because "sunk costs" (the original capital investment) were also much higher than in the more labor-intensive industries. The decisive figure in determining costs and profits was (and still is) not rated capacity for a specified time period but rather throughput—that is, the amount actually processed in that period. Throughput is, then, the proper economic measure of capacity utilization. In the capital-intensive industries the throughput needed to maintain minimum efficient scale requires not only careful coordination

5. I use the term "minimum efficient scale" as defined by such industrial organization economists as F. M. Scherer and William G. Shepherd, whose work rests on that of George Stigler and Joseph S. Bain done in the 1950s and 1960s on the relationship of "minimum optimal scale" to market share. This literature is effectively summarized by Scherer, "Economies of Scale and Industrial Concentration," in Harvey J. Goldschmid et al., eds., *Industrial Concentration: The New Learning* (Boston, 1974), especially 51–55, and Shepherd, *The Economics of Industrial Organization*, 2d ed. (Englewood Cliffs, 1985), chs. 9–10. My definition differs from theirs only by emphasizing throughput; that is, the technological advantages of scale cannot be achieved without managerial coordination. As Shepherd and Scherer stress, the cost curves that define minimum efficient scale vary from technology to technology, and change within one technology as the state of the art changes. They stress, too, that such scale is determined by the size of existing markets, which is constantly changing. An early and particularly useful application of these concepts to long-term development is in Leonard W. Weiss, "The Survival Technique and the Extent of Suboptimal Capacity," *Journal of Political Economy* 72 (June 1965):246–261. The term "scale" refers primarily to continuous flow processes, but it can pertain to batch processes, as suggested in Armen Alechian, "Costs and Outputs," in Moses Abramovitz et al., *The Allocation of Economic Resources: Essays in Honor of Bernard Francis Haley* (Stanford, 1959), 23–40.

of flow through the processes of production, but also of the flow of inputs from the suppliers and the flow of outputs to the retailers and final consumers.

Such coordination did not, and indeed could not, happen automatically. It demanded the constant attention of a managerial team or hierarchy. The potential economies of scale and scope, as measured by capital invested, are characteristics of a technology. The actual economies of scale or of scope, as measured by throughput, are organizational. Such economies depend on knowledge, skill, experience, and teamwork—on the organized human capabilities essential to exploit the potential of technological processes.

The significance of economies of scale in production, as measured by throughput, can be illustrated by the well-known example of the very first modern industrial enterprise (as differentiated from transportation, communication, or distribution enterprises) in the United States, the Standard Oil Company. (Its successor, Exxon, is still the world's largest oil company.) The oldest and still largest German chemical companies provide a striking example of the economies of scope in production.

In 1882, the Standard Oil "alliance" formed the Standard Oil Trust. The purpose was not to obtain control over the industry's output. The alliance, a loose federation of forty companies, each with its own legal and administrative identity but tied to John D. Rockefeller's Standard Oil Company through interchange of stock and other financial devices, already had a monopoly. At that time, the members of the alliance produced 90 percent of America's output of kerosene.[6] Instead, the Trust was formed to provide a legal instrument to rationalize the industry and to exploit economies of scale more fully. The Trust provided the essential legal means to create a corporate or central office that could do two things. First, it could reorganize the processes of production by shutting down some refineries, reshaping others, and building new ones. Second, it could coordinate the flow of materials, not only through the refineries, but from the oil fields to the refineries and from the refineries to the consumers. The resulting rationalization concentrated close to a quarter of the world's kerosene production in three refineries, each with an average daily charging capacity of 6,500 barrels, two-thirds of the product going to overseas markets. (At this time, refined petroleum products were by far the nation's largest nonagricultural export.) Imagine the diseconomies of scale (the increase in unit costs) that would result from placing close to one-fourth of the world's production of shoes, or textiles, or lumber into three factories or mills! The administrative coordination of the operation of miles and miles of machines and the huge concentration of labor needed to man those machines would make no economic or social sense.

The reorganization of the Trust's refining facilities brought a sharp reduction in the average cost of producing a gallon of kerosene. In 1880, the average cost of a gallon in plants with a capacity of 1,500–2,000 barrels was approx-

6. Ralph W. Hidy and Muriel E. Hidy, in their *Pioneering in Big Business, 1882–1911* (New York, 1955), 14–23, 44–46 describe the financial arrangements that unified the Standard Oil alliance.

imately 2.5¢. By 1885, according to the industry's most authoritative history, the cost for plants of that size had been reduced to 1.5¢.[7] In 1884, the Trust's manufacturing committee reported that the average cost of processing a gallon of crude in all its works had dropped from 0.534¢ in 1884 to 0.452¢ in 1885, with a resulting increase in the profit margin from 0.530¢ in 1884 to 1.003¢ in 1885. As the averages indicate, the cost for the giant refineries was much lower, far below that of any competitor. To maintain this cost advantage, however, large refineries had to have a continuing daily throughput of from 5,000 to 6,500 barrels, or a three- to four-fold increase over the earlier daily flow of 1,500 to 2,000 barrels, with resulting increases in the number of transactions and in the complexity of coordinating production and distribution.

In the same years that Standard Oil was investing in its large refineries to exploit the economies of scale, the German dye makers were making an even larger investment to exploit fully the economies of scope. The enlarged plants produced literally hundreds of dyes as well as many pharmaceuticals from the same raw materials and the same intermediate chemical compounds. The first three enterprises to make such investments to exploit the cost advantages of scale and then those of scope—Bayer, Hoechst, and BASF—were able to reduce the price of a new synthetic dye, red alizarine, from 270 marks per kilo in 1869 to nine marks in 1886 and to make comparable price reductions in their other dyes.[8] The addition of a new dye or pharmaceutical added little cost to the production of that item and the additions permitted a reduction in the unit cost of other items. On the other hand, the addition of each dye involved the development of a specialized product—requiring constant supervision to assure the necessary quality—and steadily increased the need for organizational coordination.

The stories of Standard Oil and the German chemical companies are by no means unique. In the 1880s and 1890s, new mass-production technologies—those of the Second Industrial Revolution—brought a sharp reduction in costs as plants reached minimum efficient scale. In many industries the throughput of plants of the scale of those of Standard Oil was so high that a small number of them could meet existing national and even global demand. The structure of these industries quickly became oligopolistic. Their few large enterprises competed worldwide. In many instances the first ones to build a plant of minimum efficient size and to recruit the essential management team have remained until today leaders in their industries.

The differentials in potential scale-and-scope economies of different pro-

7. Hidy and Hidy, *Pioneering in Big Business*, 107 gives costs and profits for 1884 and 1885; see also, Harold F. Williamson and Arnold R. Daum, *The American Petroleum Industry: The Age of Illumination 1859–1899* (Evanston, 1959), 482–484.

8. L. F. Haber, *The Chemical Industry During the Nineteenth Century: A Study of the Economic Aspect of Applied Chemistry in Europe and North America* (Oxford, 1958), 128–136; and John J. Beer, *The Emergence of the German Dye Industry* (Urbana, 1959), 119; Sachio Kahu, "The Development and Structure of the German Coal-Tar Dyestuffs Firms," in Akio Okochi and Hoshimi Uchida, eds., *Development and Diffusion of Technology* (Tokyo, 1979), 78.

duction technologies indicate not only why the large hierarchical firms appeared in some industries and not in others, but also why they appeared suddenly in the last decades of the nineteenth century. Only with the completion of the modern transportation and communication networks—the railroad, telegraph, steamship, and cable and the organizational innovations essential to operate them as integrated systems—could materials flow into a factory or processing plant and finished goods move out at a rate of speed and volume required to achieve substantial economies of throughput. Transportation that depended on the power of animals, wind, and current was too slow, too irregular, and too uncertain to maintain the necessary level of throughput.

The essential first step in the creation of the modern industrial enterprise was, therefore, the investment in production facilities large enough to exploit fully the economies of scale and scope. The critical entrepreneurial act was not the invention—or even initial commercialization—of a new or greatly improved product or process. Instead, it was the construction of the plant of the minimum efficient size required to exploit fully the economies of scale or scope.

Several points need to be made about such an investment. First, to repeat for emphasis, different production technologies have different scale-and-scope economies. In some industries, such as oil, steel, and aluminum, the cost-curve gradient, to use an economist's term, was steep and the penalties of producing below minimum efficient size were severe. In others, such as soap, cereal, and similar branded packaged products, the gradient was less steep and the penalties of operating below minimum efficient size not as severe. Moreover, the minimum efficient plant size for a specific product was related as much to existing demand as it was to the potential output. The number of plants in an industry that could operate at minimum efficient size at a given time was limited by the size of the market for that industry's product. A plant built at minimum efficient size for an existing technology that produced more than the market could absorb had higher unit costs than a smaller plant whose output was more closely calibrated to demand. Therefore, in this study minimum efficient plant size means the size at a given time and place. The term reflects both the state of the art of the production technology and the size of existing markets at the time the plant is built. It also reflects the elasticity of demand. Because the products of the new technologies were often new or much improved, the lower prices made possible by scale-and-scope economies greatly increased the demand, thus further increasing minimum efficient size, at least until the technological limits were reached.

Both technologies and markets are dynamic. Improved technology can increase or decrease minimum efficient scale; so can changes in the market. In addition, the capital required to build the plant at minimum efficient size varies from industry to industry. Steel mills need larger capital investments than do oil refineries, which in turn are more costly than factories producing cigarettes and other branded packaged products. For these reasons the size and costs of production plants differ widely from industry to industry.

Minimum efficient scale, as just defined here, refers only to a productive

unit, a manufacturing establishment in the U.S. Census's term, or physically adjoining establishments, not to the enterprise as a whole. Most enterprises become multiplant, for in few cases is a single work of minimum efficient size able to continue to meet the demand, particularly in growing markets. Decisions concerning where and when to build new plants involve a complex equation, one that changes as technology and markets change. Key considerations include not only cost advantages, but also the estimates on such matters as the size and location of markets, anticipated share of those markets, plus transportation costs and other expenses of distribution and supply. If the plant is to be in a foreign country, the costs of tariffs and other restrictive legislation need to be computed. Whatever the size of an investment in production, an enterprise can realize the cost advantages of that investment only if a management team effectively coordinates the fluctuating flow of a variety of materials into the several production facilities, through them, and then to the wholesalers, retailers, and consumers.

Manufacturers quickly appreciated the importance of the relationship between cost and volume and the penalties of operating below minimum efficient scale. By the early twentieth century managers, particularly in the United States, were using the concept of "over- and underabsorbed burden" as a way to place such variations in cost on their accounting sheets. If the plant operated at below standard volume (based on estimates of market size as well as anticipated throughput at rated capacity), the resulting loss was listed as underabsorbed burden; if it operated at above that scale, the resulting gain was listed as overabsorbed burden.[9] Over- and underabsorbed burden became one of the critical items on the cost sheets of individual plants and on the profit-and-loss accounts of the enterprise.

Economies of Scale and Scope in Distribution

The economies of scale and scope as measured by throughput in the production processes help explain why the large firms appeared in the industries where they did and why they appeared when they did, but they do not explain why the firms initially grew in the way they did; that is, by integrating forward into distribution and backward into purchasing. The new mass producers might well have continued to buy from and sell to commercial intermediaries—particularly the wholesalers and manufacturers' agents. By doing so they would have been spared the expense of investing in personnel and costly distribution and purchasing facilities. Explaining such vertical integration requires a more precise understanding of the processes of volume distribution—particularly why the wholesalers and other commercial intermediaries lost their cost advantage vis-à-vis the volume producer.

9. Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA, 1977), 379.

The intermediaries' cost advantage had been in exploiting both the economies of scale and scope. Because they handled the products of many manufacturers, they achieved a greater volume and lower per-unit cost than that of any one manufacturer in marketing and distributing a *single* line of products (scale). Moreover, they increased this advantage by the broader scope of their operation—that is, by handling a number of *related* product lines through a single set of facilities (scope). This was true of the new volume wholesalers and the new mass retailers—the department store, the mail order house, and the chain store. These full-line wholesalers and mass retailers came into being after the railroad, telegraph, steamship, and cable made possible new high volume, high speed, and regularly scheduled transportation. (The appearance of mass wholesalers and retailers in each of the countries studied is described in more detail in chapters 3, 6, and 9.)

Both wholesalers and retailers were organized specifically to exploit both the economies of scale and scope. The organizational core of a volume distributor was its buying departments, one for each major line handled. The buyers set the price, the quantity, and the physical specifications (size, weight, and quality) of goods ordered. They were responsible for maintaining the high-volume flow of goods through the enterprise by working closely with the traffic department in arranging specific shipments and deliveries and with the selling force in arranging displays, catalogue copy or advertising. In the coordination of the flow through the enterprise the critical measure of performance was "stock-turn"; that is, the volume processed in relation to inventory by a single set of facilities and personnel within a specified period of time. The term stock-turn was to mass distributors what throughput was to refiners and other mass producers. The greater the stock-turn, the more intensive the use of existing personnel, facilities, and capital invested in inventory; therefore, the lower the cost per unit. The buying departments, each coordinating the flow of a single line of products, were the units that permitted the new volume distributors to take advantage of economies of *scale*; while the traffic departments, the selling facilities, and the geographically distant purchasing offices and facilities used by all the product-buying departments permitted the enterprise to achieve economies of *scope*—that is, to use the same facilities to market and distribute different products.

Yet the wholesalers' advantages of both scope and scale had limits. When the limits were reached, it became more advantageous for the manufacturer than for the merchant to make the investment in purchasing, marketing, and distribution facilities. When a manufacturer's volume attained a scale that would reduce the cost of transporting, storing, and distributing his products to the level of that achieved by the wholesaler through volume economies, the intermediary lost his cost advantage. As Scott Moss points out: "Provided that such a minimum efficient scale in transactions exists, the intermediary will have a cost advantage over its customers and suppliers only as long as the volume of transactions in which he engages comes closer to that scale than do

the transactions volumes of his customers or suppliers."[10] A manufacturer of a single product rarely achieved such a volume in retailing, except in highly concentrated urban markets. On the other hand, he often did so in the wholesaling of both consumer and industrial goods.

Just as the volume distributor's cost advantages of scale were lost when the manufacturer increased his output to a volume that would bring comparable advantages, so the cost advantages of joint distribution or scope were reduced when products required specialized facilities and skills in marketing and distribution.* The more products required such specialized skills and such specialized storage and transportation facilities, the fewer the opportunities for the intermediary to achieve economies of scope. This was also true for transactions involved. If contractual arrangements for the sale and delivery of related products were relatively straightforward and standardized, then a single intermediary might easily handle all transactions involved in the distribution of a manufacturer's output. If the transactions were complex, however, if the products required specialized knowledge in order to sell, to install, to maintain, and to make the necessary credit arrangements; and if costly specialized facilities were required to distribute the goods; then the intermediary had to hire personnel with specialized skills and invest in specialized facilities—skills and facilities that were often applicable only to one particular product line. Moreover, if the intermediary did make the investment in facilities and personnel, he became increasingly dependent on the few manufacturers of the product and the cash flow needed to stay in business. In addition, the manufacturer usually had a more accurate understanding of the specialized facilities, skills, and services required to distribute and to market his specific products than the wholesaler who handled a variety of lines for a number of producers. Thus, the increasing product-specificity of the investment required to market a product in volume reduced the intermediary's cost advantage and discouraged him from making the necessary investment. At the same time, it increased the incentive of the manufacturer to make the expenditures.

Still another incentive for the manufacturer to have his own sales force was competition. The new production technologies with their historically unprecedented output created a new type of competition. In the industries where a few large plants could meet existing demand, those plants quickly came to compete for a sizable share of national and often international markets. Cost advantages of scale reflected a manufacturer's market share. Normally, loss of

10. Scott J. Moss, *An Economic Theory of Business Strategy: An Essay in Dynamics Without Equilibrium* (Oxford, 1981), 110–111. The application of the concept of minimum efficient scale to the understanding of the evolution of the enterprise is one of several major contributions in Moss's study. Particularly valuable are the concepts spelled out in chs. 6 and 7 on vertical integration.

* In this study, marketing refers to the activities and services provided by the sales force and distribution to facilities and personnel used in shipping and storing goods from the factory to the consumer.

share to a competitor not only increased his production costs but also decreased those of his competitor.

Thus, in the new capital-intensive, oligopolistic industries the few large competitors could no longer afford to depend on commercial intermediaries who made their profits by handling products of more than one manufacturer. The manufacturers needed a sales force to concentrate full time on advertising, canvassing for customers, assuring delivery on schedule, and providing installation, maintenance and repair, customer credit, and other services for their products. A sales force became the most dependable instrument to obtain and hold a market share large enough to assure the cost advantages of scale. In addition, it provided a steady flow of information about markets and customer needs and tastes; in these ways the manufacturer's sales force reduced potentially high transaction costs.

For these interrelated cost and competitive reasons the leading enterprises in industries using new high-volume technologies recruited and trained personnel to advertise, sell, take orders, and check on deliveries and payments. As the scale of the firm's output increased and as the facilities and services required for volume distribution narrowed the intermediaries' potential to exploit the economies of scope, nearly all the leaders invested in product-specific distribution facilities and in personnel trained to provide specialized marketing services.

The motives for integrating backward by building a purchasing organization to take the place of commercial intermediaries were, of course, much the same as those for integrating forward into wholesaling. The establishment of a central purchasing office provided the skilled, product-specialized buyers who searched out sources of supplies and contracted with suppliers as to price, specification, and delivery date. They worked closely with production departments to schedule flows and with traffic departments which were responsible for the shipment of goods to the plants. Although fewer product-specific services and facilities were needed in purchasing than in distribution, both were often quite essential in coordinating flows and reducing costs. The processors of branded packaged dairy and chocolate products and of canned milk, canned vegetables, and canned meat needed refrigerated storage facilities and careful scheduling to assure continuous year-in-and-year-out flows into their plants. Others like cigarette makers and distillers, whose raw materials required aging and curing, made comparable investments. Furthermore, the purchase of manufactured supplies in volume directly from the manufacturers reduced costs the same way it did for mass retailers. Thus, integrating backward into purchasing, like integrating forward into distribution, replaced existing commercial intermediaries.

Building the Integrative Hierarchy

As I have mentioned, the initial step in the creation of the modern industrial enterprise was the investment in production facilities large enough to achieve

the cost advantages of scale and scope. The second, which often occurred almost simultaneously, was the investment in product-specific marketing, distributing, and purchasing networks. The third and final step was the recruiting and organizing of the managers needed to supervise the functional activities of production and distribution, to coordinate and monitor the flow of goods through the processes, and to allocate resources for future production and distribution on the basis of current performance and anticipated demand.[11]

The resulting hierarchies were established along functional lines. Each function was administered by a department (see Chart 1). The largest and first to be formed were those for production and sales, with a smaller one for purchasing. Normally, the departments were organized along line and staff principles with line officers having executive authority and the staff officers only advisory power. In production, the line officers had charge of the specific processes involved in the output of goods, and staff officers had charge of personnel records, labor relations, cost accounting, and quality and inventory control. In sales, the line officers usually headed regions or managed specific products, while the staff officers specialized in accounting, advertising, and market analysis. In addition, smaller departments were established to carry out other functional activities.

Of the smaller departments, that of research and development became one of the most significant in those enterprises operating in technologically advanced industries. In these industries the new enterprise's laboratories were first established to assist in assuring proper control of production processes and in maintaining the quality of the product. The creation of a research organization geographically and administratively separated from production came only after the production and marketing organizations were firmly in place. In their early years, research departments concentrated on improving product and process; they also often located new markets for existing products. Only in later years did they begin to develop new materials or finished goods for new markets.

The amount of investment in research reflected the technical complexities of the products and the production processes. Not surprisingly, industrial research in the United States and Europe was concentrated in a small number of industries. In the United States in 1921 (the first year for which information is available), close to half the scientific personnel in industrial research were employed in two industries—chemicals and electrical equipment. Also, not surprisingly, was the close relation that developed between research managers and those in marketing and production.[12] The sales force maintained a careful

11. A detailed example of recruiting and organizing a hierarchy is given in Alfred D. Chandler, Jr. and Stephen Salsbury, *Pierre S. du Pont and the Making of the Modern Corporation* (New York, 1971), 132–148.

12. In the United States, General Electric, Westinghouse, Eastman Kodak, and Du Pont all provide good examples of this relationship during their pioneering years. See Harold Passer, *The Electrical Manufacturers, 1875–1900: A Study in Competition, Entrepreneurship, Technical Change, and Economic Growth* (Cambridge, MA, 1960) 263–264; Reese V. Jenkins, *Images and Enterprise:*

watch on product performance and customer needs. Its managers worked closely with the product designers and plant managers, as well as laboratory chiefs, in improving both product and process. In the chemical and electrical machinery industries, the resulting network of information flows became a major force for continuing technological innovation.

Industrial firms invested in research and development for much the same reasons that they invested in marketing and distribution. In both cases specialized firms existed to carry out the functions, although there were far fewer such research firms. Like wholesalers and retailers, specialized research and development firms made profits by providing the same or related services to a number of manufacturers (i.e., scope). The manufacturer's primary interest, however, was in improving a specific product line. The improvement of products and processes required very product-specific skills and facilities, as well as the close coordination of marketing, plant, and laboratory personnel and facilities handling the product. Moreover, in the technologically advanced industries, improved products and processes became major competitive weapons in maintaining and enlarging market share. There was little incentive for a research firm to invest heavily in highly product-specific personnel and facilities, since its function was to serve many customers; the manufacturer, with strong proprietary interest in the development of his particular products, had every incentive to do so. As a result, product-specific industrial research and development in the United States before World War II was concentrated in the offices and laboratories of the integrated industrial enterprise. These firms, however, continued to use such specialized research companies as Arthur D. Little and Stone & Webster for testing, setting standards, and other more routine, less specialized activities.[13]

In addition to production and marketing departments and smaller areas for purchasing and research and development, still other smaller functional departments were established. They included traffic (to move goods over transportation networks), engineering (to construct plants and other facilities), legal, real estate, and, somewhat later, personnel. Again as in the case of research and development, it was the volume of activity and the product-specific nature of the tasks that led to the creation of these smaller internal departments. The enterprise continued to rely on outside specialists for routine or part-time specialized assistance and advice.

The other large department was finance. Its functions were somewhat less product specific. Its task was to coordinate the flow of funds through the en-

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Technology and The American Photographic Industry, 1839–1925 (Baltimore, 1975), 116, 120, 177–187, especially 184; Chandler and Salsbury, *Pierre S. du Pont*, 140, 142–143. For German examples, chs. 11 and 13 of the present book.

13. David C. Mowery, "The Emergence and Growth of Industrial Research in American Manufacturing, 1899–1945," Ph.D. dissertation, Stanford University, 1981, ch. 5, and Mowery, "The Relationship Between Intrafirm and Contractual Forms of Industrial Research, 1900–1941," a paper completed at the Harvard Business School, July 1982.

terprise's many units and to provide a steady flow of information to top management for monitoring performance and allocating resources. The ability to plan and schedule cash flows was still another advantage of internalizing distribution units. Internalization eliminated the danger of delayed or intermittent payments from wholesalers—receipts whose steady flow was essential to pay suppliers and workers and to stabilize and reduce the costs of working capital. The financial department, in addition, set up uniform accounting and auditing procedures needed for monitoring current performance and for systematic resource allocation. In time, it became responsible for external financial affairs, including the raising of new capital and the payment of dividends and of interest on bonds.

The heads of the major functional departments, the president, and sometimes the full-time chairman of the board became the senior decision-making unit of integrated industrial enterprises. In the United States, these executives usually formed the executive committee of the board and in Germany, the *Vorstand*. In Britain and Japan, they became managing or executive directors. Individually, the full-time salaried "inside directors" and their departmental staffs monitored activities of the operating units within their functional domain and supervised the flow of goods through the enterprise. Jointly, they determined corporate policies, planned long-term strategy, and allocated resources necessary to maintain the health and growth of the enterprise. In making broad strategic decisions they worked closely with the "outside directors," the part-time representatives of families, banks, and other shareholders. The completed structure of these centralized, functionally departmentalized hierarchies became variations on that depicted in Chart 1.

First-Mover Advantages and the New Oligopolistic Competition

The entrepreneurs who invested in plants big enough to exploit the economies of scale or scope, in production, in product-specific facilities, and skills in distribution (and in research in technologically advanced industries) and in the managerial organization essential for coordination created the modern industrial enterprise portrayed in Chart 1. The first to do so acquired powerful competitive advantages, or (to employ that most useful term of economists) "first-mover" advantages. To compete with the first movers, rivals had to build plants of comparable size, make the necessary investment in distribution and, in some industries, in research. They also had to recruit and then train a managerial hierarchy. To build a plant of the necessary size might well mean that the total capacity of the industry would exceed the existing demand. Thus, if latecomers were to maintain the capacity utilization essential to assure competitive unit costs, they would have to take customers away from the pioneers.

It was a challenging task. While the latecomers' production managers were learning the unique characteristics of what was usually a new technology and while its sales force was being recruited and trained, the first-mover managers had already worked out the bugs in the production processes. They had become

practiced in assuring prompt delivery. They knew how to meet customers' special needs and to provide demonstration, consumer credit, installation, and after sales repair and maintenance. In the branded packaged products industry, where advertising was an important competitive weapon, the first movers were already investing some of their high profits in massive advertising campaigns.

The first movers had other advantages. In the more technologically complex industries the first to install research laboratories and to train technicians were the first to become fully aware of the attributes and intricacies of the new products and processes—an advantage often reinforced and expanded by patents. Moreover, in most of the new industries the latecomers had to make a much larger initial outlay of capital than did their predecessors. They could rarely finance the necessary large investment in the scale of production or in the size of their marketing networks from retained earnings, as could the first movers. The latecomers' investment not only was larger, but also riskier, precisely because of the first movers' competitive strength.

Thus the first movers were not only the leaders in exploiting the cost advantages of scale and scope, but also had a head start in developing capabilities in all functional activities—and (again to employ a useful term of the economists) were apt to be well down the learning curve in each of those functional activities before any challengers went into full operation.

The distinction between "first movers" and "challengers" is of major importance to this history. In the development of improved products or processes first came the "inventors," usually the individuals who obtained the patent. Then came the "pioneers," the entrepreneurs who made the investment in facilities needed to commercialize a product or process; that is, to bring it into general use.[14] The first movers were the entrepreneurs and the enterprises they created by making the three interrelated investments in production, distribution, and management required to achieve the competitive advantages of scale, scope, or both inherent in the new and improved products and processes. The challengers were the latecomers who took on the first movers by making comparable investments to obtain comparable competitive capabilities.

Although barriers to entry into an industry raised by a first mover's investments were intimidating, challengers did appear. They came most often when rapid demographic changes altered existing markets and when technological change created new markets and diminished old ones. In those industries where scale or scope provided cost advantages, however, the number of players remained small, and there was little turnover among the leaders. These industries quickly became and remained oligopolistic and occasionally monopolistic. A few large integrated firms competed for market share and profits in national and often world markets in a new, oligopolistic manner; that is, they no longer competed primarily on price as firms had done previously, and as

14. The term "pioneers" as used here is close to "innovators" used by Joseph Schumpeter; that is, entrepreneurs who put new production processes and new products into use. Because the words, "innovator" and "innovation" have been so widely used in so many contexts since Schumpeter's day, I prefer the more neutral descriptive term, "pioneers."

firms continued to do in the more fragmented labor-intensive industries. The largest firm (usually the first to make the three-pronged investment) became the price leader, basing prices on estimates of demand in relation to its own plant capacities and those of its competitors.

Price remained a significant competitive weapon, but these firms competed more forcefully for market share and increased profits by means of functional and strategic efficiency; that is, by carrying out more capably processes of production and distribution, by improving both product and process, by locating more suitable sources of supply, by providing more effective marketing services, by product differentiation (in branded packaged products primarily through advertising), and finally, by moving more quickly into expanding markets and out of declining ones.[15] The litmus test of such competition was changing market share, and, as we shall see, in most of the new oligopolistic industries market share and profits changed continually.

Competition for market share and profits tended to sharpen the skills of the middle managers responsible for the functional activities. It also enhanced skills of top managers for coordination, strategic planning, and resource allocation. These skills and those of lower management and of the working force, plus the physical facilities acquired to exploit fully the economies of scale and scope, formed the organizational capabilities of the modern industrial enterprise. These highly product-specific and process-specific organizational capabilities affected, indeed often determined, the direction and pace of the growth of industrial enterprises and of the industries and even the national economies in which they operated.

Continuing Growth of the Modern Industrial Enterprise

Once the investment in production and distribution was large enough to exploit fully the economies of scale or scope, and once the necessary managerial hierarchy was in place, the industrial enterprise grew—it added new units—in four ways. First, it grew by acquiring or merging with enterprises using much the same processes to make much the same product for much the same markets; that is, it grew by horizontal combination. Second, it grew by taking on units involved in earlier or later stage production involved in making a product from the mining or processing of raw materials to the final assembling or packaging; that is, by vertical integration. The third way of growth was to expand geographically. The fourth was to exploit the firm's existing technologies or markets to create new products. The first two methods of growth were usually defensive; to protect the firm's existing investments. By the latter

15. The literature on functional and strategic competition is voluminous. Because such competition has been central in the administration of industrial companies, the literature has been used for decades in courses in American business schools in production, marketing, purchasing, control, and policy. Michael Porter in *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (New York, 1980) cogently describes the current thinking about functional and strategic competition.

two, firms used existing investments and, above all, existing organizational capabilities to move into new markets and new businesses.

Growth through Horizontal and Vertical Combination

In many cases the incentive for acquisition or merger of enterprises producing competitive products was to control more effectively output, price, and markets. Horizontal combination increased organizational capabilities and productivity only if it was followed quickly by extending centralized administrative control over the constituent or acquired companies and then by rationalizing facilities and personnel to gain economies of scale and scope. This was the case, for example, when the Standard Oil associates legally consolidated to form the Standard Oil Trust. If, however, the merged or acquired companies were not administratively centralized and rationalized but continued to operate autonomously, the enlarged enterprise remained little more than a federation of firms. The following chapters provide many examples of both types of horizontal merger.

The reasons for vertical integration—growth through obtaining facilities along the chain of production—were more complex. Faster throughput and with it significant cost reductions, and increased productivity in terms of output per worker or unit of equipment rarely came unless the additional processes were directly connected to a firm's existing ones by its own rails, conveyors, or pipes. Such integration was particularly successful in the production of chemicals, metals, and machinery. Where facilities making related processes were geographically separated, increased throughput was less feasible.

In these investments, the motive for growth by vertical integration was primarily defensive, but not in the same way as that of horizontal combination. Sometimes it was undertaken to withhold supplies from competitors and so create barriers to entry in the industry. Far more often, however, as the following chapters will indicate, the motive for such vertical integration was to assure a steady supply of materials and thus maintain the cost advantages of scale and scope. It provided insurance against great cost increases resulting from fluctuating production or even shutdown. It reduced the cost of inventory storage as well as other carrying costs. It lowered the risks of the failure of suppliers to carry out contractual agreements—risks from what economists and organizational theorists term bounded rationality (human fallibility) and opportunism (self-interest with guile). The greater the investment in capital-intensive facilities and the greater the minimum efficient size, the greater the need for insurance against transaction costs. Thus, the more concentrated the facilities of production and the more concentrated the sources of supply, the more likely was the integration of the two within a single enterprise.

Nevertheless, as long as integration did not directly increase economies of scale or scope, as long as alternate sources of supply were available at a reasonable price, and as long as legal and personal relationships helped to

assure the fulfillment of contractual arrangements, manufacturers usually preferred to buy their supplies rather than to invest in and produce the supplies. Occasionally the investment was made as a profitable portfolio transaction. Most manufacturers, however, preferred to expand by adding units in areas and in products where their existing facilities and organizational capabilities gave them a distinct competitive advantage.

Growth through Geographical Expansion and Product Diversification

When managers of industrial enterprises combined horizontally or vertically for defensive or strategic reasons, they did so in response to specific historical situations which varied from time to time, from country to country, from industry to industry, and even from firm to firm. For example, in the U.S. automobile industry during the interwar years, Ford remained fully vertically integrated, General Motors had a policy of controlling one quarter of its suppliers, and Chrysler obtained nearly all of its supplies from independent producers.

Far more central to the continuing evolution of the modern industrial enterprise were the strategies that led to adding production units in distant places, usually abroad, and that led to making related products. Geographical expansion essentially came about as the enterprise continued to exploit its competitive advantages in distant markets. Product diversification came from opportunities to use existing production, marketing, and research facilities and personnel in new and more profitable ways, ones that also exploited competitive advantages. The efforts to exploit these organizationally based competitive advantages became the driving force in the growth of the modern industrial enterprise in the first half of the twentieth century. It was the development and implementation of these two strategies of growth carried out to employ more profitably organizational capabilities honed through functional competition that permitted that enterprise to counter the bureaucratic inertia inherent in any large hierarchical organization.

Obtaining distant production facilities obviously came after, not before, a first mover had made its initial investments in production, distribution, and management. The first expansion of production usually occurred with the enlargement of the original plant, particularly when expansion brought greater economies of scale or scope. As the marketing organization was geographically extended, opportunities arose to reduce costs of production, transportation, and inventory by building plants in the home country, closer to new markets or closer to local sources of supplies, materials, or labor.

Much the same incentives led to direct investment abroad. In addition, tariffs and other discriminatory legislation, by raising the cost of finished goods shipped across national borders, provided major reasons for constructing distant production facilities. Factories were also built to forestall competition in a new market, to exploit potential market growth, to produce a variation of the product line to meet local needs. In nearly every case, however, the in-

vestment was made on the assumption that the enterprise had a competitive advantage over local producers.[16] The large integrated enterprise also expanded abroad, just as it did at home, for defensive reasons: to obtain assured sources of essential supplies, usually mineral or agricultural products, for its domestic and later its foreign processing plants. Again, it did so largely when such supplies were not available at home and where local entrepreneurs had not developed the resource, as was often the case in direct investment in oil fields, mines, or rubber plantations.

The primary reason, however, for a firm's direct investment abroad was that of expanding its market share in distant countries and lowering the costs of making and selling its products in those markets. As I have suggested, and will describe in more detail in the following chapters, the decisions to establish plants abroad depended on a calculus that balanced, on the one hand, the costs of producing both primary and intermediate products in plants of minimum efficient size with, on the other hand, the costs of transportation, distribution, tariffs, and other regulatory legislation. For this reason most firms became multinational by building facilities to produce their basic lines in advanced rather then developing economies for new and improved markets were larger in economies with high per-capita income. For this reason, too, investment in distant production facilities followed, rather than preceded, that in marketing.[17]

First movers who had the strongest competitive capabilities went abroad most quickly. Thus, the first movers among American producers of mass-produced light machinery—sewing, office, and agricultural machines, later automobiles, and a variety of comparable products such as elevators and printing presses—were marketing and then producing abroad well before World War I. By that time, too, the German producers of dyes and pharmaceuticals dominated world markets. By then, also, the first movers in Germany and the United States in the electrical equipment industry had taken over world mar-

16. Stephen H. Hymer was the first to point out that the modern industrial enterprise moved abroad to exploit competitive advantages based on the organizational capabilities of a managerial hierarchy, particularly in his "Multinational Corporation and the Law of Uneven Development," in J. W. Bhagwati, ed., *Economics and World Order* (New York, 1971) 113–140 and "The Efficiency (Contradictions) of Multinational Corporations," *American Economic Review* 60 (May 1970):441–448. See also Charles P. Kindleberger, *American Business Abroad: Six Lectures on Direct Investment* (New Haven, 1969) and Richard E. Caves, "International Corporations: The Industrial Economics of Foreign Investment," *Economica* 38 (February 1971): 1–27.

17. For example, S. J. Nicholas reports from a sample of 119 British firms: "In all cases for which information was available, 99% of all British multinationals had agency agreements and 70% overseas travelers before the initial foreign investments." "British Multinational Investment before 1939," *Journal of Economic History* 11 (Winter 1982): 620–621. As will be indicated below, this was the case for both North American and German multinationals. Also, as John H. Dunning has noted of manufacturing subsidiaries established abroad by multinationals before 1914, 87.7 percent of U.S.-based ones were in developed economies, as were 73.7 percent of U.K.-based ones, and 81 percent of European-based ones. "Changes in Level and Structure of International Production: The Last One Hundred Years," in Mark Casson, ed., *The Growth of International Business* (London, 1983), 90.

kets. With the competitive advantages derived from economies of scale or scope, these first movers long remained dominant in foreign countries, as well as their own. On the other hand, if an industry's production technology provided little in the way of competitive advantages, as was the case in textiles, the firms that went overseas rarely retained their initial market position.

Whereas expansion abroad rested primarily on exploiting the economies of scale, growth through product diversification rested more often on the economies of scope. This was true at both the departmental (functional) and the enterprise level. The stimulus for diversification was both external and internal.

Changes in the environment often reduced demand for existing products and created markets for closely related ones. Basic technological innovations (in electronics and the automobile, for example), demographic shifts, as well as wars and depressions, all affected product markets. Also, there was always the reduction of profits that came when demand leveled off and when capacity became calibrated with or even overreached existing demand.

Internal stimulus came from the needs and opportunities to use existing facilities and capabilities more profitably. In some cases investment in facilities of minimum efficient size created imbalances within the firm.[18] For example, a Bessemer works of minimum efficient size produced more steel ingots than the rolling or fabricating facilities could utilize. In the production of aluminum and synthetic ammonia the scale economies were so high that the aluminum and chemical companies had to search for new products to take some of the excess output.

Another source of diversification was the emergence of by-products, such as fertilizer and soap and glue in meatpacking, and petrochemicals in oil refining. Unless the volume of output was high enough to warrant the creation of a new and separate marketing organization, however, these by-products remained by-products and were marketed through wholesalers or other intermediaries who sold related products and could continue to benefit from economies of scope. Where the volume was large enough, as it was in the case of fertilizer and leather for the largest meatpackers, nationwide sales organizations were established, managers hired, and integrated sub-enterprises or divisions were formed to market the by-products.

The most common stimulus to diversification came from the potential of the economies of scope existing in major functional units—production, distribution, and research. At most enterprises the first step toward product di-

18. The significance of such imbalances for the growth of the firm was first emphasized by Edith Penrose, *The Theory of the Growth of the Firm* (Oxford, 1959), particularly chs. 5 and 7, and is more fully developed by Moss in his *Economic Theory of Business Strategy*, especially 51–64 (where he considers carefully the effect of the external environment) and by Teece's excellent "Towards an Economic Theory of the Multiproduct Firm." *Journal of Economic Behavior and Organization* 3 (March, 1982):39–63. As Teece stresses, "A specialized firm's generation of excess resources, both managerial and technical, and their fungible character is critical to the theory of the diversification advanced here," 47.

ersification was the development of a full line that exploited the firm's facilities and capabilities in all three activities. Thus, a reaper company and a plow company began to compete directly as each moved into the other's markets by developing a full line of agricultural implements. So, too, automobile manufacturers produced and distributed a full line of cars, trucks, buses, and other commercial vehicles. Though the expansion of the line often required the building of new plants or even new sales departments, growth relied primarily on the expansion of existing facilities or the addition of comparable ones using existing capabilities.

When diversification moved beyond producing a full line the story was different. Where diversification came by exploiting the economies of scope in production to make goods sold in untapped markets, new marketing personnel and facilities were usually required. When American agricultural equipment companies entered the construction equipment business, when German dye makers moved into pharmaceuticals, or when Du Pont's rayon division developed cellophane, they all made more effective use of existing production facilities and personnel and of intermediate processes and materials. They also had to recruit and train new sales forces. Often, the resulting integration of production and distribution led to the formation of research and development units for each of the new product lines.

Where diversification resulted from the economies of scope in marketing and distribution, the establishment of processing and purchasing units was often called for. Such economies existed because distribution and marketing networks, even though product specific, could be used to handle more than a single product line. Thus, the meatpackers began to send dairy products and fruit through their refrigerated networks. Distribution facilities created to assure daily delivery of fresh yeast to bakers and brewers were easily adapted to daily delivery of ground coffee to grocers. Nonrefrigerated facilities for moving one type of processed grain product could be used for others; capabilities in marketing one set of branded packaged products were easily transferrable to another.

In research and development, which was concentrated in the technologically advanced industries, facilities and organizational capabilities were even less product specific, and the opportunities to exploit economies of scope even greater than they were in production and distribution. Knowledge required for R&D was based on physics, chemistry, and other sciences, disciplines that far transcended the needs of one product line. The learning acquired to improve processes and products in explosives was applicable to the development of new chemically produced fibers, fabrics, films, and plastics, as well as better paints, varnishes, and other finishes, since those products were all based on the same cellulose technology. The scientific training needed to improve machinery for the generation and transmission of electricity was applied to developing electrical appliances, vacuum tubes, X-ray and electronic equipment, and other technologically complex devices.

Even more important, the chemical producers and electrical manufacturers

had mastered the specialized technical and organizational skills needed to bring a new or improved product into full commercial use; that is, they became skilled in development as well as research. They understood the complexities involved in market research, in building pilot plants and then in scaling up production facilities to minimum efficient size, and recruiting and training a nationwide sales network—activities that absorb the greater part of the cost of bringing a product on stream.

Finally, successful diversification required a team of experienced managers at corporate headquarters capable of monitoring and allocating resources for not one, but several product lines. They not only had to evaluate current performance and functional competitive effectiveness in each of several product lines, but also had to decide whether to expand or contract long-term investment in the lines. Or, even more important for the long-term performance of the enterprise, they had to determine whether or not to initiate research and development on a new product. Above all, they had to decide whether or not to make the extensive investment necessary to build production facilities of minimum efficient size, and to recruit the management and the sales force needed to produce and sell a product which might not show a profit for many years after its development was authorized and even several years after the investment in production and other operating facilities was made. Such evaluations and decisions called for managers experienced in the technological and marketing capabilities on which the competitive advantage of the new product rested. It was in carrying out a continuous strategy of growth through product diversification that the economies of scope at the enterprise level, as differentiated from the unit level, had their greatest significance.

Growth by adding units abroad or going to new products led to a modification of the enterprise's administrative structure.[19] Initially expansion abroad called for only a moderate adjustment—the formation of an international committee and then a department to supervise distant marketing and distribution. In the few cases where overseas investment was primarily in basic materials, the supervisory body often became the raw materials department. Only after extensive expansion did the entrepreneur adopt a multidivisional structure by which major geographical regions were administered through integrated area divisions.

Diversification into related industries brought far more thoroughgoing administrative restructuring. Diversifying companies, some more quickly than others, adopted the multidivisional structure (see Chart 2). This structural change came when the senior managers realized that they had neither the time nor the necessary information to coordinate and monitor day-to-day operations and, at the same time, devise and implement long-term plans for the several product lines. The administrative overload had become simply too great. The solution was to establish a structure consisting of a divisional office to admin-

19. Alfred D. Chandler, Jr., *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, MA, 1962), particularly chs. 2, 3, and 7.

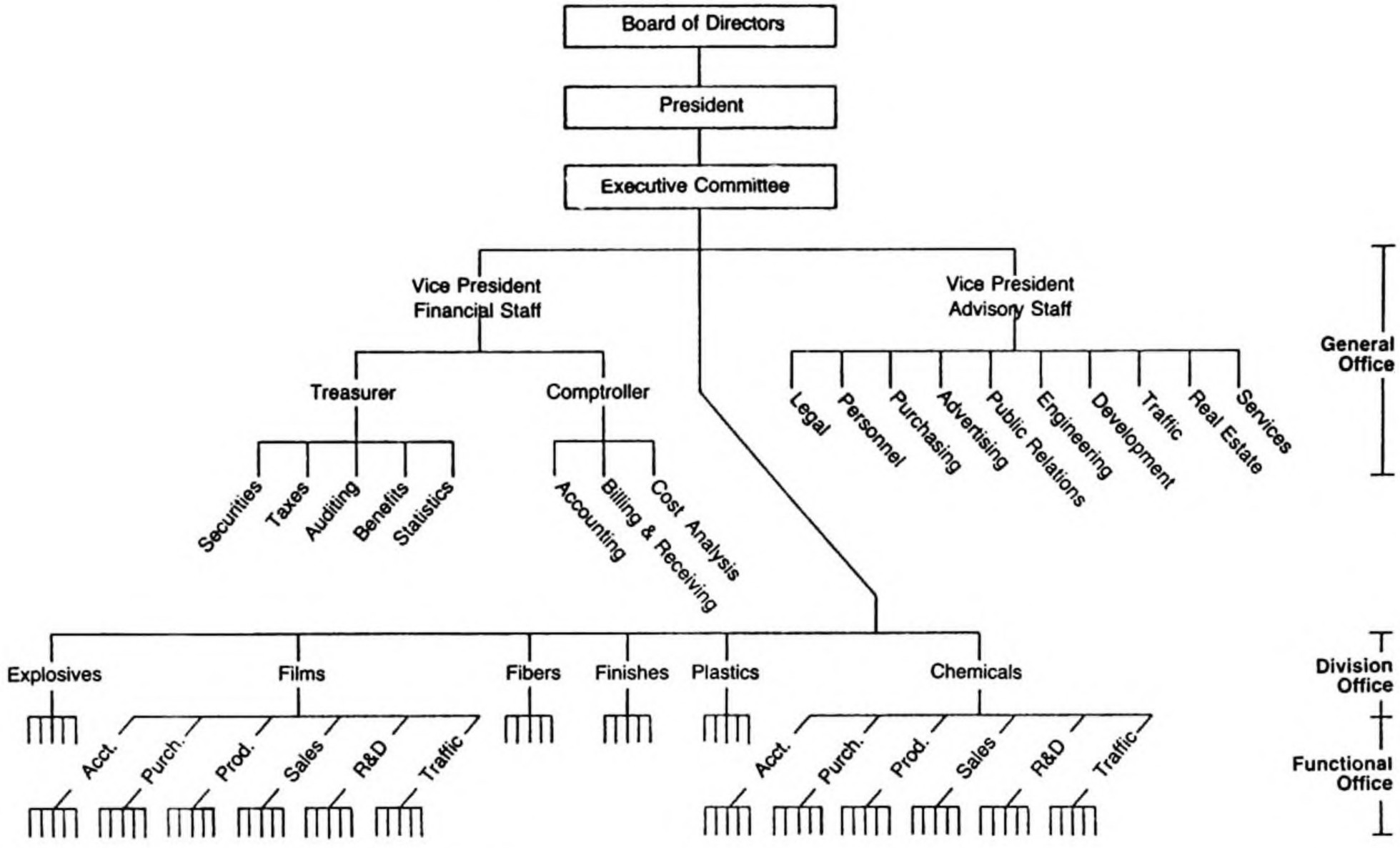

Chart 2. The Multidivisional Structure.

ister each of the major product lines, and a general or corporate office to administer the enterprise as a whole.

Each divisional office comprised a general manager, his staff, and the heads of the functional activities involved. The general manager was fully responsible for his division's performance and profits. In other words, each division became a replica of the enterprise's original centralized, functionally departmentalized organization. Now, however, the highest ranking officer in the division had become a middle manager reporting to the general executives in the corporate office. Each division competed functionally and strategically with other firms or the divisions of other firms within the same industry.

At the corporate office, the top managers became general executives without day-to-day operating responsibility. They concentrated on evaluating performance of the operating divisions and on planning and implementing long-term corporate strategy through the allocation of funds, facilities, and personnel. They were assisted by a corporate staff who provided a constant flow of information and offered specialized skills, not only to the general executives at the corporate headquarters, but also to the middle managers who headed the operating divisions. The corporate staff included specialists in accounting, auditing, and other numbers-oriented activities. A corporate personnel office collected information on the qualifications and training of both employees and managers. Central research laboratories helped provide technological advice and develop new products and processes not clearly related to the work of the divisional laboratories. The development department planned corporate strategy. Often there were corporate offices for marketing and production. The corporate departments were only advisory, not decision-making offices, but they enhanced the capabilities of the whole organization by facilitating the constant internal exchange of information on new developments in facilities, processes, and products.

The multidivisional structure was the administrative response to growth based on further utilization of firms' physical facilities and organizational capabilities. Divisions were usually responsible for a single product line, but in some cases for geographic areas. In other words, the structure provided the means to administer several different, though related, product lines; it also provided a way to administer a single line which was sold worldwide by creating comparable integrated divisions for major geographical regions.[20] Thus the corporate office was able to monitor and advise and so to increase the competitive capabilities of the several divisions. In this manner, diversified multidivisional enterprises were able to intensify competition within the industry into which they moved, and at the same time to transfer resources from older, more stable industries to newer, more dynamic ones.[21]

20. Ibid., ch. 4.

21. This refers, of course, to enterprises that moved into related products by direct investment and not, as did the conglomerates of the 1960s and 1970s, into unrelated products through acquisition. See the concluding chapter of this book.

The Modern Industrial Enterprise in Labor-intensive Industries

These broad descriptive patterns and the explanations of the dynamics of the modern industrial enterprise, it must be emphatically stressed, relate to those industries where the technologies of production had the potential for extensive economies of scale and scope and where product-specific marketing organizations provided further competitive advantages. Where this was *not* the case—that is, in industries where, because of the technology, the minimum efficient size of plant was small; where mass distribution did not require specialized skills and facilities; and where coordination of flows was a relatively simple task—manufacturers had much less incentive to make the three-pronged investment in production, distribution, and management. In more labor-intensive industries such as publishing and printing, lumber, furniture, textiles, apparel, leather, seasonal and specialized food processing, and specialized instruments and machinery, the large integrated firm had few competitive advantages. In some, such as textiles and lumber, careful coordination of flows within manufacturing units did increase throughput and lower unit costs. Costs were also often lowered by producing a variety of differently designed products from the same machines and materials. But the resulting cost advantages were far less than those in the capital-intensive industries. They rarely created major barriers to entry. Indeed, in such industries size, by making the large firm less flexible in meeting changes in demand and styles, might be a competitive disadvantage. This was often the case in apparel (both cloth and leather) and in some industries processing food and drink. In the labor-intensive industries many small single-unit firms continued to prosper. In these industries, competition was based on price and the ability to move quickly with changing demand.

Significantly, it was in several of these more fragmented industries—textiles, apparel, furniture, and some food processing—that the mass retailers—the department stores, mail order houses, and chains—began to coordinate the flow of goods from manufacturer to consumer. In those industries where substantial economies of scale and scope did not exist in production, high-volume flows through the processes of production and distribution were guided—and the resulting cost reductions achieved—by the buying departments of mass retailers that handled a variety of similar products. Their efficiency further reduced the economic need for the wholesaler as a middleman between the manufacturer and retailer.

On the other hand, where the economies of scale and scope and the creation of product-specific marketing organizations did bring competitive advantage, the history of the modern industrial enterprise followed, in a general way, the patterns outlined here. I have identified the similarities and the common threads in the creation and continuing dynamic evolution of one of today's most significant economic institutions with little reference to historical specifics. This chapter provides a framework and a common terminology essential to analyze

the complex, interrelated historical developments detailed in the following chapters. It permits a systematic and precise description and analysis of the differences, modifications, variations, and exceptions—from one industry to another, from one country to another, from one time period to another and, even from one enterprise to another. Such comparisons can help reveal the differing impact of technologies, economic factors, and cultures on the coming and evolution of the institution and help explain its role in modern industrial society.

[38]

Excerpt from Richard S. Tedlow, *New and Improved: The Story of Mass Marketing in America*, 344–75.

CHAPTER 6

Secrets of Success: Modern Marketing in Historical Perspective

This concluding chapter is synthesized around the propositions that were introduced in chapter 1 and that have served as a theme through the course of this book. Let us first restate them and then proceed to a discussion of each.

1. The strategy of profit through volume—selling many units at low margins rather than few units at high margins—historically has been the distinctive signature of the American approach to marketing. By making products available to the masses all over the nation—by democratizing consumption—the mass marketer did something profoundly American.
2. Mass marketing did not spontaneously develop because of the existence of the necessary technological, economic, and social preconditions. An entrepreneur had to have the creativity to see new business opportunities and the willingness to take the risks involved in transforming his or her vision into reality. The business firms that such people made the instruments of their will had to create mass markets by shaping and molding the unorganized, inchoate demand for their products.
3. To implement the strategy of profit through volume, the entrepreneur had to create a vertical system through which raw materials were sourced, production operations managed, and the product delivered to the ultimate consumer. Scale at one level was useless without scale at the others. Mass production demanded mass marketing. The vertical system usually involved integration within the firm of some of the steps involved and contractual relations for the others.

4. The first firm to implement successfully the profit-through-volume strategy had the opportunity to reap enormous profits. First-mover profits tantalized potential competitors, but first-mover advantages confronted those potential competitors with barriers to the industry's high returns.
5. The key strategic choice that resulted was how to attack the barriers. The potential entrant could attempt a more proficient implementation of the same basic strategy used by the first-mover or it could seek to exploit some strategic insight to change the rules of the game. The entrant's thrust, the dominant firm's response, the entrant's reply, and ensuing moves defined the nature of competition in a given industry over the course of decades.
6. Sustained success or failure in a market has been determined by how well a firm manages change. The firm itself experiences internal change, as leaders age and new executives struggle for power. Competition changes as new strategies are attempted. The market changes as the needs and wants of consumers evolve. The infrastructure changes with the development of new technologies for transportation, communication, and data processing.

Profit Through Volume

In one of his most famous observations, Adam Smith wrote that "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."[1] Broadly speaking, this was true of business in Smith's time not only in Britain but also around the world. People struggled to find a way to cooperate toward the goal of limiting output and keeping prices and margins high. What is today called the skimming strategy was the predominant approach to business since time began. The reason is simple. Through this strategy, the businessperson could make more money doing less work.

What is new is the penetration strategy, selling as many units as possible for the lowest price possible and making money on volume. This strategy was adopted by a select group of American businesspeople during the course of the last hundred years. Unlike Adam Smith's merchants, Henry Ford did not meet with other automobile manufacturers to keep prices high. John Hartford did not meet with other grocers to keep prices high. Robert Wood did not meet with others in the refrigerator industry to keep prices high. Instead, these men figured out new methods and systems to drive prices as low as possible.

The great mass marketers have been just that—marketers to the

masses. They have struggled for volume before all else. And they have not merely served markets. They have created them. Candler created a mass market for colas. Ford organized and mobilized one for automobiles. Sears, Roebuck created mass markets for a wide variety of general merchandise. It did not invent the cream separator, the sewing machine, or the refrigerator; but its aggressive penetration pricing program combined with terms of sale that featured an iron-clad, money-back guarantee drew rural America into the national market. A&P got its start by creating a mass market for a specialty food item, tea, through aggressive pricing and clever promotional schemes. Through the first half of the twentieth century, A&P made more food available to more people at lower prices than any other firm, which resulted in its control of, at one time, 13 percent of the historically highly fragmented business of retailing groceries.

A 1938 *Fortune* article used the phrase, "The American idea of profit through volume."[2] This astute phrase not only describes a business strategy; it is about American culture as well. Indeed, it links the two. This book is about the democratization of consumption[3] as a distinctive contribution of America to the world. The way to run a business is not to collude with other producers to restrict output and keep the price high. Rather, it is to run the works full and steady and push prices down so low that everyone can buy the product cheaply and conveniently.

The American business system has placed in the hands of the average citizen an unprecedented panoply of products. Table 6–1 compares the selected possessions and living conditions of all American families in 1900 to those of poor families in 1970. Table 6–2 shows that Americans owned more of the most desirable household appliances than did Western Europeans in 1970. The data in both tables show that America was the leader in that year. America democratized consumption, and foreign nations envied it and wanted to have these things as well.

America's twentieth-century revolution has been more material than ideological. Even in the worst year of the Great Depression, the French philosopher André Siegfried said, "The United States is presiding at a general reorganization of the ways of living throughout the entire world. . . ."[4] No one understood the power of the attraction of this "general reorganization of the ways of living" better than Franklin Roosevelt. That is why he wanted to give every Russian a copy of the Sears catalog. He knew that that catalog and the business system behind it were leading to the world of table 6–1, a world in which the poor had access in 1970 to what even much of the middle class did not have in 1900. Given half a chance, his hunch was that the American "wish book" could become the Russian one as well.[5]

The intellectual aspect of the creation of mass markets cannot be

TABLE 6–1

Standard of Living of all American Families (1900) and Poor American Families (1970)

Percent of Families Having:	All Families in 1900	Poor Families in 1970[a]
Flush toilet	15%	99%
Running water	24[b]	92
Central heating	1	58
One (or fewer) persons per room	48	96
Electricity	3	99
Refrigeration	18 (ice)	99 (mechanical)
Automobiles	1[c]	41

[a]Family incomes under $4,000.
[b]Data are for 1890.
[c]Data are for 1910.
SOURCE: Stanley Lebergott, *The American Economy: Income, Wealth, and Want* (Princeton, N.J.: Princeton University Press, 1976), 8.

TABLE 6–2

Percent of Population in Possession of Selected Products in the United States and Western Europe, 1970

Percent of Households Having:	United States	Western Europe
Refrigerator	99%	72%
Washing machine	70	57
Dryer	45	18
Iron	100	93
Vacuum cleaner	92	61
Dishwasher	26	2
Toaster	93	21
Television	99	75
Telephone	91	33

SOURCE: Stanley Lebergott, *The American Economy: Income, Wealth, and Want* (Princeton, N.J.: Princeton University Press, 1976), 102.

overlooked. In André Siegfried's view, the idea that life could and should be a pleasure was a "revelation," "the most fantastic innovation of all."[6] Innovation is much studied by economists and business academicians, but any analysis that omits the sociocultural matrix out of which ideas such as this emerge is incomplete.

There could have been no mass-marketed automobile before the idea of one. We forget what a staggering intellectual leap this horseless world constituted because we take it for granted. Ford and a few others had this idea at least in part—and in my view, in important part—because he and

they were Americans. They grew up in a country where equality was a deeply held belief. The picture Ford had of society was not one of static, frozen classes in which some are born to serve and others to be served. It was of a fluid world, where a man was judged not on where he was but on how far he had come. Such a man, Ford believed, deserved to own his own automobile.

We are so accustomed to this democratization of consumption—the mass marketing of what previously had been seen as the property of an elite—that we can easily overlook the extent to which it continues to happen all around us. Here, for example, are the comments of John Sculley, president of Apple and former president of Pepsi-Cola, on the computer revolution:

> When Apple was founded [in 1976], there were probably fewer than 50,000 computers that had ever been built in the entire world. Today [1987], more than 50,000 computers are built and sold every day. The decade saw a hobbyist's dream materialize into a $46 billion industry. . . .
>
> [T]he parallels between Steve [Jobs] and Henry Ford were striking. Neither man was educated as an engineer nor invented the technology behind the product that would bring him massive wealth and attention. They were, instead, leaders of a social revolution to empower the common man. Ford envisioned the automobile as a mass-produced tool that would give the average person incredible new freedom to explore the world. Steve saw the same in the personal computer.[7]

That is precisely correct, and that is why Jobs, like Ford, became a hero in this nation. Jobs did not merely make money. He did something for Americans that had a profound cultural and historic resonance.

Entrepreneurial Vision

Mass marketing was not made by preconditions. Men made it; men of vision, taking risks.

The energizing, animating force of the entrepreneur is nowhere more evident than in the Coca-Cola story. There was a soft drink market prior to 1886, when Coca-Cola was invented—Schweppes, Hires, Cliquot Club, Moxie, Dr Pepper, and others were already in business—but there was not a defined market for cola. Further, the market for soft drinks was local by nature. The product was heavy and bulky. Production was sufficiently simple so that scale economies could be achieved in a fairly small

syrup plant. Unlike the automobile industry, a soft drink manufacturer did not have to have a national market to run an efficient plant.

Coca-Cola became a mass-marketed product for one reason—because Asa Candler wanted it to be. He felt sure he had the right product. He loved Coca-Cola because it cured his headaches. He was sure that if people really knew how wonderful this product was, he would have to "lock the doors of our factories and have a guard with a shotgun to make people line up and buy it."[8] Candler had a breadth of vision by virtue of the missionary religious activities of his family. That same religious fervor was brought to the company, where "Onward Christian Soldiers" concluded the sales meetings. It was not easy for Candler to find salespeople. The job was difficult, demanding weeks of travel far from home on the nation's newly completed rail network. It was not a full year's employment, because soda fountains were only open seasonally.

Candler solved such problems first by employing his family members and later by using people like cotton buyers, who were seasonally employed at other tasks. None of the people he hired had a business school education. We know this because there were no business schools. Coca-Cola had to establish its own training program for young recruits such as Ross C. Treseder. They had to be informed about the past performance of the accounts in their territory and about the coming season's promotion plans, and they had to be taught how to negotiate. Once on the road, early salespeople met with doubt about this new product. To lessen skepticism, Candler invested in advertising. As early as 1892, he was spending "considerable" sums "in territory which has not as yet yielded any returns."[9]

Candler did not *have* to do what he did to mass market Coke. He did not have to send salespeople north, to meet with skepticism when trying to open up new territory for an unknown southern beverage. He did not have to invest in advertising to make the beverage better known. Spending that money meant taking a chance. How could Candler have known whether these advertising expenditures would generate sufficient returns? Why didn't he just take the money out of the company and spend it to build himself a big house? That is what Coca-Cola inventor John S. Pemberton probably would have done. That is what most people would have done. But that is not what Candler did, and that is why there is a Coca-Cola. He did not consume his company's earnings. He reinvested them for the sake of future production.

In the area of personal transportation, there has always been a strong underlying demand in the United States. The fact that there were more than twenty million horses in the country at the turn of the century demonstrated that. There was also a demand for mechanical, inanimate transportation. Bicycle sales in the 1890s demonstrated that. But to say

these things is not to say much. In the words of Adam Smith himself, "A very poor man may be said in some sense to have a demand for a coach and six. . . ."[10]

It was not underlying demand that produced the mass-marketed automobile. It was Henry Ford. There was no underlying demand specifically for the Model T. It was Ford, first and foremost, who had the vision of what a car should be. It was he who in the first decade of this century refused to go in the direction of low volume, high margin, and high prices. He and his people embraced the challenge of mass production. It was also the Ford Motor Company that first devised a workable structure to distribute mass-produced automobiles throughout the nation. Just as the company attracted the best engineers to create the miracles of the moving assembly line, it hired the best salesman in the industry, Norval Hawkins, and a cadre of people like Robert Abbott and George Banks who guided the product to the dealers.

The retail cases also provide ample illustration of the key role of the individual with insight and a sense of mission in the forging of a mass market. There was nothing inevitable about A&P's branching out from its pre–Civil War location, nor about its going into a wide variety of grocery lines, nor of John Hartford's move into economy stores prior to World War I.

John Hartford had an unbending belief in the importance of keeping the company in a position where it could deliver more quality product for less money than the competition. Adherence to that principle led him to close thousands of stores during the Depression and to transform A&P into a supermarket chain. It was the loss of this direction under the series of unimaginative conservators who succeeded Hartford that cost the company its greatness.

Sears, Roebuck also illustrates well the decisive importance of the chief executive officer and the extent to which a small number of key decisions—decisions that were not inevitable—could influence the development of a firm for years. The first such decision was Richard Sears's to go into general merchandise rather than specialize in watches. The second was the Rosenwald-Wood decision to go into retail stores. And the third was Wood's to undertake the major expansion after World War II.

All these decisions were based on an analysis of markets and long-term changes in demographics and regional population. They all sprang from a conception of Sears as America's mass marketer—serving the 80 percent of the population bracketed by the "Gold Coast" at the high end and the "junk trade" at the bottom. None of these decisions was inevitable, and each sprang in some part from the unique view of the company and of the world of the people who made them.

The term "entrepreneur" has been around for a long time. In fact, it was first used independently of association with economic activity. An entrepreneur in sixteenth-century France was a man involved in military ventures. By the eighteenth century, the word's meaning had expanded to include government contracting for public works such as roads and bridges.[11]

The entrepreneur was introduced into economic discourse in 1755, by Richard Cantillon in his *Essai sur la Nature du Commerce en Général.*[12] Cantillon described the entrepreneur as an individual who buys the means of production at certain prices in order to combine them into a product that he is going to sell at prices that cannot be known at the time he commits himself to his costs.

These ideas were refined and elaborated on by business economist Jean-Baptiste Say early in the nineteenth century. Say's entrepreneur was the agent who

> unites all means of production—the labor of the one, the capital or the land of the others—and who finds in the value of the products which result from their employment the reconstitution of the entire capital that he utilizes, and the value of the wages, the interest, and the rent which he pays, as well as the profits belonging to himself.[13]

This individual was not an economic automaton. Rather, he needed special human qualities, including

> judgment, perseverance, and knowledge of the world as well as business. He is called upon to estimate, with tolerable accuracy, the importance of the specific product, the probable amount of the demand, and the means of its production: at one time he must employ a great number of hands; at another, buy or order raw material, collect laborers, find consumers, and give at all times a rigid attention to order and economy; in a word, he must possess the art of superintendence and administration. . . . In the course of such complex operations, there are an abundance of obstacles to be surmounted, of anxieties to be repressed, or misfortunes to be repaired, and of expedients to be devised.[14]

One would imagine that a person responsible for such a wide range of critical tasks would stand at the center of the study of economics and of economic history. But this has not been the case. The main line of economic theory that has as its parent Adam Smith's *The Wealth of Nations,* published in 1776, has had little place in it for the role of the individual. In the classical and neoclassical view, the principal concern has been the examination of a general equilibrium between supply and demand resulting from the multiple reactions of businesspeople, laborers, consumers, and investors to prices. The world of high theory in economics

to this day is fundamentally impersonal and timeless. Buyers do not know other buyers, buyers do not know sellers, sellers do not know other sellers; and there is perfect information. Individual variation is "cancelled out in the aggregate or suppressed by competition."[15] Social or cultural considerations can be factored into this paradigm only with difficulty, and there is not much room for unique human insight. For the neoclassical economist, the improper study of mankind is man.[16] The neoclassical paradigm has been called "perhaps the highest intellectual construction in the social sciences."[17] Brilliant work has been generated within its assumptions. But those assumptions assume away important aspects of what is plainly part of everyday reality in business.

People matter. Successful executives in similar corporations facing similar problems can devise diametrically opposed strategies to cope with them. Consider, for example, Sewell Avery and Robert Wood in 1945. Top executives within a single firm often disagree about what course to adopt. Look at the argument between Theodore Merseles and Robert Wood over retail stores at Ward in 1924. The decisions taken at these key junctures can influence companies and industries for years.[18] Timing, moreover, is critical in business. The fact that both Sears and Ward (eventually) opened stores to serve the booming Los Angeles market is far less important than the fact that Sears did so first.

Some economists have departed from the neoclassical view and attempted to find a place for the entrepreneur in their work. Most prominent among these is Joseph A. Schumpeter, who has recognized the importance of innovation and has suggested the part the entrepreneur played in its achievement. To undertake new things is difficult and constitutes

> a distinct economic function, first, because they lie outside of the routine tasks which everybody understands and, secondly, because the environment resists in many ways that vary, according to social conditions, from simple refusal either to finance or to buy a new thing, to physical attack on the man who tries to produce it. To act with confidence beyond the range of familiar beacons and to overcome that resistance requires aptitudes that are present in only a small fraction of the population. . . .[19]

In Schumpeter's view, this remarkable and essential business type was on the wane in the twentieth century because of the rise of bureaucratized big business. It "is much easier now," he wrote in 1942,

> than it has been in the past to do things that lie outside familiar routine—innovation itself is being reduced to routine. . . . [P]ersonality and will power

> must count for less in environments which have become accustomed to economic change . . . and which, instead of resisting, accept it as a matter of course.[20]

Entrepreneurship and along with it capitalism were thus slowly being killed not by left-wing agitators who criticized their failures but rather by their very success. Schumpeter greeted this development with distaste and even perhaps with apprehension.

Daniel J. Boorstin, one of the leading historians of our generation, arrived at conclusions similar to those of Schumpeter, though he approached the problem from the perspective of a different discipline. The subtitle of the third volume of Boorstin's trilogy *The Americans* is *The Democratic Experience;* but by the end of the book the word "democracy" takes on menacing connotations. Instead of being the battle cry of each individual quest for freedom from oppression, it becomes a morass that no one is capable of crawling out of. The future now comes to us "on schedule." Giant organizations are bringing it to us in a programmed fashion. At one time society concerned itself with establishing an environment in which advances in technology and progress in general could flourish. Now, Boorstin believes, we find ourselves in the grip of a bureaucratized "progress" beyond the reach of human intelligence and imagination. His classic illustration is the Manhattan Project. If the atom bomb was inventable, it would be invented. If it was possible, it was unstoppable.[21]

Many of the entrepreneurs discussed in this book felt alienated by bureaucratic organization. The best example, of course, is Henry Ford. He hated organization to such an extent that he literally tried to take an ax to his, chopping up file cabinets in moments of rage. Richard Sears did not go that far, but he did leave his firm because the demands of organized activity made the company that bore his name a joyless place for him. Candler at Coca-Cola left because he felt his business was subject to excessive regulation (this in 1916).

It would belabor the obvious to state that there are differences between a bureaucratized big business and a small start-up. However, it does not necessarily follow that bigness means the demise of entrepreneurship as Schumpeter believed or that large organizations generate a mindless, directionless momentum that the modern world mistakes for progress.

We must not read the individual out of history because even in an organized world individuals make it. The mark of true leadership is the ability of the individual leader to bend the large organization to his or her will. Instead of stifling individual initiative, vision, and common sense, the power of a well-run business can vastly leverage them.[22] Robert Wood,

for example, could move Sears into the South and West after World War II because he could exploit the organizational, mercantile, and financial power of a great American institution.

Vertical System

Many people believe that in business small is beautiful and that formal structures more often block the achievement of corporate goals than facilitate them. The wrong structure unquestionably hinders the firm. But nothing hinders it more than chaos. Effective organization is essential to great accomplishment in the business world. There can be no better example than Ford and General Motors in the 1920s.

Management of the vertical system has been a key success factor in the history of all the firms discussed in this book. When the vertical system was mismanaged—as, for example, when the cola companies, soon after World War I, found themselves at the mercy of the unpredictable whims of the market for sugar—disaster could result. When the vertical system was well managed—as, for example, it was when A&P, in its great days between the wars, backward integrated to do its own wholesaling—cost savings with attendant competitive advantages could be achieved.

Management of the vertical system might necessitate actual ownership at more than one level. The ownership option was often chosen for defensive reasons—that is, to protect needed supplies or outlets—or because only through ownership and direct managerial intervention could the necessary efficiencies be achieved. Management of the vertical chain could also entail efforts to control without owning. Examples include the franchise agreements in the soft drink and automobile industries and some aspects of Sears's specification buying program.

Defining the boundaries of the firm has received a great deal of attention from students of business. No problem is fraught with more theoretical significance because it deals directly with the relative efficiency of market versus administrative coordination of economic activity. This issue also carries practical significance of the first magnitude because it bears on where the manager will choose to invest the firm's capital.

The cases covered in this book suggest the variety of answers that firms have given to the question of their vertical boundaries. I believe there is no single answer to this problem for all historical eras, for all industries, or even for all companies within an industry.

In both the soft drink and the automobile industries, manufacturers

performed some marketing functions themselves and franchised others. In the late 1880s and through the 1890s, Coca-Cola sold syrup through a network of jobbers to soda fountains around the nation. There is no indication that it ever considered doing its own wholesaling, much less integrating all the way forward into retailing.

Some problems could have been solved by ownership of soda fountains.[23] The company could have exercised greater control over how the product was advertised in the store and how it was prepared and served to customers. The consumer, it should be remembered, bought a beverage composed of syrup, carbonated water, and ice. All Coca-Cola did was ship syrup. Therefore, an important part of the "manufacture" of the end product took place off-site and was undertaken by people not employed by the company. Moreover, if Coca-Cola owned its fountains, the fountain operators could not push competing beverages offering higher margins.

The soft drink operators never integrated that far forward because the costs of these admittedly attractive benefits were excessive. Coca-Cola was an important product to the fountain but still represented only a small percentage of its income. Running a fountain was fundamentally different from producing syrup, and Coca-Cola would have had to make a large investment in personnel and capital to enter the business. Clearly, it was a better idea to try to control the retail outlet through promotion plans and dealer-training programs and by developing consumer pull through a massive, long-term advertising effort.

Bottling became a distribution option at the turn of the century. Once again, Coca-Cola had the choice of owning its own bottlers or dealing with independent firms. It chose the latter, but with a twist. It franchised parent bottlers, which in turn franchised other bottlers. The terms of the franchise agreement limited and defined the nature of the transaction. Coca-Cola supplied the syrup at a mutually agreed-upon price and worked to promote the brand. The bottlers agreed to bottle no other cola (although they could bottle other soft drinks) and to develop the local market. They held their franchises for life, and eventually they became part of their estates.

Asa Candler did not integrate forward because he did not want to make the capital investment in bottling and, more importantly, because he did not really believe in bottling. The carbonated beverage bottles he knew from early in his career often exploded, or the contents spoiled. He was a druggist; and the picture in his head of his product—part medicine and part refreshment—was of an elixir to be consumed amidst the sociability of the fountain.

Candler's decision not to go into bottling was a critical one for the

company's future. The market development work of the local bottler became a key element in the mass marketing of this brand. Independent bottlers worked as well as they did, at least in part, because they were working for themselves—building their own businesses. Thus they had a large financial stake in the brand's success.

As the brand did succeed, however, Coca-Cola found itself hamstrung in some important respects by its franchise system. The bottlers could use their pricing control to dictate policy as they did in 1920. They were more interested in their local conditions than they were in Coca-Cola's market position nationwide. Why should the Baltimore Coca-Cola bottler care about share of market in Santa Fe? Why should bottlers agree to participate in a nationwide marketing program that did not meet their specific needs?

Through much of the history of both Coca-Cola and Pepsi-Cola, district managers have negotiated the many issues involved in the business with the bottlers. In recent years, these district managers have usually been young people, under 35 years of age, not long out of business school. When I interviewed some of them in 1983, I was surprised to learn how difficult such negotiations were. These young executives found themselves face-to-face with wizened bottlers, some of whom were personally worth tens of millions of dollars, whose families had been in the bottling business for a half century before the district manager was born, and who felt they knew exactly how to run their business and were in no need of advice from a 30-year-old salesperson making $35,000 a year. After a couple of days on the road, I asked one district manager how he felt about his job. He told me he was in the market for a "D.O.B." What was that? "Daughter of Bottler."[24]

The point of this story is that although every consumer in the United States knows the names Coke and Pepsi and probably not one in a thousand could name his or her local bottler, at the point of contact the bottler can be as powerful as the manufacturer. This is even truer in Pepsi's history than in Coke's. In the 1930s, Pepsi was a retailer's (Loft's) brand. By the late 1940s, it was more a bottlers' cooperative than a manufacturer's brand. Walter Mack was forced out of the company because he lost the confidence of the bottlers. Alfred Steele told the bottlers that if they trusted him they could spend their way to prosperity rather than save their way to bankruptcy. He promised to take them out of their Fords and put them into Cadillacs. This was a promise he kept, and in the process he helped make Pepsi a true manufacturer's brand.

Thus, historically the vertical system of the cola companies has been mixed. Some bottling territories have been franchised to independent entrepreneurs; others have been company owned. Even when these bot-

tling relationships were with independent businesses, however, they were hardly market transactions in the classical sense. These relationships were long-term, characterized by exclusive agreements concerning territories and products handled.

In recent years, the soft drink companies have moved to increase their control over bottling. Where possible, they have been buying up their bottlers and consolidating operations. This trend has been pushed by a number of developments. First, the complexity of the bottling business has increased with the advent of cans and the growing number of stock-keeping units produced by beverage variations and container sizes. The era of one beverage (regular Coca-Cola) in one size (6½ ounces) is gone, never to return. It is essential that the modern bottler be up to date in plant investment and management. The cola companies cannot abide bottlers more interested in today's bottom line than in the future. Second, relations with grocery chains have demanded changes. Regional grocery chains may operate stores crossing the franchised territories of numerous bottlers. It has become more important than ever to coordinate soft drink sales with chain store trading areas. Thus, in this industry, the pressure of the differing evolutionary patterns of bottlers and the grocery trade has combined with changing economics to demand greater management of product flow by the soft drink firms.

In the automobile industry, we see a similar set of choices concerning how far forward firms should integrate toward the consumer. Should the manufacturer consign its output to a distributor, such as Sears, for example, at the factory gate? Should it wholesale but not retail? Should it wholesale and retail? Should it adopt some combination of these options?

The issues involved for Ford were staffing, investment, and control. Ford could pay the salaries needed to attract skilled professional executives to serve as headquarters sales staff, branch sales managers, assistant managers, and roadmen. Further, Ford realized that with major investments in a dozen or so branches it could exercise control over thousands of dealerships without having to hire thousands of salaried managers or to invest millions of dollars in agencies.

Like Coca-Cola with its bottlers, Ford franchised its dealers. Like the bottlers, Ford dealers did not pay an up-front fee. But there the similarity between the franchise agreements ended. Franchises to bottle Coca-Cola were permanent; automobile franchises could be terminated by either party. Coca-Cola could not raise syrup prices without the consent of the bottlers; Ford's prices were in its own hands. The bottlers had exclusive territories; Ford dealers lost their exclusives when the company unilaterally terminated exclusivity in 1921. We can thus see that the bottler franchisees had much more power than the dealer franchisees. Why?

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Automobile manufacturers were more powerful in their franchise relationship than syrup (or, in the case of Pepsi-Cola, concentrate) suppliers were in theirs because the auto manufacturers did so much more for the ultimate consumer. Manufacturing an automobile was a task of great technological and engineering complexity and demanded an enormous capital investment. The end product changed the world. Manufacturing syrup or concentrate was easy. And the world would be no different if the product had never been invented.

No other product ever had the pulling power of the Model T Ford from the date of its introduction through the early 1920s. Ford owned the customer relationship; and because it did, it had the power to dictate terms to its dealers. Rare indeed must have been the automobile customer in 1915 who would have preferred purchasing any automobile from a specific dealer to purchasing a Ford from any dealer.

By contrast, plenty of people could quench their thirst with any beverage near at hand rather than save it for a half an hour to buy a Coca-Cola. That is why Coca-Cola's sales strategy required that it be within "arm's length of desire." This very necessity for universal distribution empowered the bottlers, who were so important in achieving it.

The history of manufacturer-dealer relations in the automobile industry has been marked by often bitter conflict. Yet the general industrywide problems should not obscure the differences among companies and even among divisions in companies that resulted from different product-market strategies, different philosophies of management, and different histories. For reasons such as these, there were big differences in the morale and performance of the dealer networks of Ford and General Motors in the middle and late 1920s, for example. Any static model of interfirm relations could account for such differences only with difficulty.

I have found no record in the histories of the retailers covered in this study of consideration of franchising their stores. Sears, Ward, A&P, and other big grocery chains owned their own stores; and each of them was supervised by a salaried manager.

A&P was fundamentally a retail store from early in its history. Store management was one of its competitive strengths. Its systems enabled it to simplify the task of store management, which made it easier to staff the stores with salaried managers.

For Sears and Ward, by contrast, the move into freestanding retail stores came well after the firms were founded. The problem of finding managers for these stores was a serious one. The "A" stores that Sears opened were larger than the biggest A&Ps prior to the supermarket revolution; and they were more difficult to manage in a programmed

fashion because general merchandise included a wider array of goods than did groceries.

Both Sears and Ward entered into merger negotiations with J. C. Penney at the end of the 1920s because of an interest in appropriating Penney's wealth of store management talent. Penney had developed its personnel by giving them an equity interest in the firm, which is why J. C. Penney liked to refer to himself as the man with a thousand partners. Merger plans never matured, and Sears and Ward were left to work themselves through their management shortages on their own. Apparently, neither firm contemplated a franchise system such as McDonald's, which might have enabled them to tap the reservoir of entrepreneurial talent.

Store ownership was not, then, a major issue for Sears, Ward, or Penney. The extent of backward integration, on the other hand, has long been an issue for the big retailers. These three companies evolved as integrated wholesale-retail operations. By cutting out market relations at that level, the companies succeeded in sourcing goods for less and underpricing the competition.

The issue of integration further backward to manufacturing, however, was a more difficult one. If Sears, for example, invested in a supplier, it could have exclusive access to the goods that the supplier produced. Even if the supplier sold to other retailers, Sears could still guarantee itself privileged access to the product. Perhaps more important, it could gain knowledge of how and where the manufacturer sourced raw materials and of the efficiency or lack thereof of the plant. Such knowledge gave Sears matchless power to establish the terms of business. The power gained through this knowledge saved Sears from the problems of opportunism and "bounded rationality," which transaction costs theorists have cited as barriers to the efficiency of market-mediated dealings.[25] It has often been said that Sears's buyers knew more about the manufacture of what they bought than did their sources. In some lines, such as refrigerators in the 1930s, that was true. The merchants at Sears designed the product to their own specifications.

Sears's buyers sometimes exercised control of the vertical system back beyond manufacturing to the purchase of raw materials even for factories it did not own. "Naturally," Theodore V. Houser told his buyers in 1939, "the raw material content of Sears's merchandise runs into box car figures. . . ." Any reduction, however slight, in raw material prices could exercise a major impact on the bottom line. A buyer who purchased raw materials in bulk and dealt with strategically located factories could develop "a uniform product . . . built to a common specification with costs based on

a common raw material. Thus you can have a nationwide sales promotion of such lines even though different stores will receive their goods from different factories."[26] A Sears buyer had the ability to create a mass market for standardized furniture, for example, even though optimum plant size and logistical costs were very different from those for refrigerators. This was possible because of the strength provided by the leverage of a great distribution system.

In some cases, where established manufacturers refused to deal with the chains, backward integration was essential. In others, merely the credible threat of backward integration disciplined suppliers, as we saw in the case of Ralston Purina and A&P in the cornflake market.

For all its advantages, the strategy of retail vertical integration had the defects of its virtues for the giant retailer. Long runs of basic items could lower production costs, but they also limited flexibility. Guaranteed orders could, over a long period of time, induce a torpor at the manufacturing level while making it impossible for the retailer to move opportunistically to make the best buys and take advantage of innovative developments. Investing in manufacturing also required added capital and management. Any retailer so doing had to question whether manufacturing was the best place to put its resources. Finally, vertical integration saddled the retailer with transfer pricing problems. What price should the manufacturing arm charge the retail arm? Where was the real source of profits or losses? Such questions could easily get lost in organizational politics.

These problems have made more difficult the strategy of vertical integration back to manufacturing for both Sears and A&P. By the late 1970s, Sears needed to move more quickly in a more competitive world. Edward Telling, Sears CEO from 1976 to 1986, pursued a policy quite different from that enunciated by Houser, in which the Sears buyer exercised the predominant influence on the investment decisions even of factories it did not own. In his book on Sears, journalist Donald R. Katz reports as a case in point the following encounter between Telling and a Sears supplier:

> Ed Telling traveled out to a screwdriver factory in Colorado . . . to hear the chief executive of the company complain that he'd built a new plant just to supply more screwdrivers to Sears, but Sears was suddenly ordering fewer screwdrivers. Telling observed that Sears already owned 40% of the screwdriver market in America, and that bumping that market share up over 50% was going to be a hell of a task. "It's your money," Telling said, "but I don't think I woulda built that new building if I were you."
>
> "Your own buyers *told* me to build it," the manager said.[27]

This is just one example of the pain and suffering caused when a company changes direction.

In the case of A&P, vertical disintegration was caused by a growing imbalance between the company's investment in manufacturing and its power as a distributor. Heavy investment in manufacturing was undertaken at a time when the market power of A&P's stores was diminishing. Pressure mounted for the stores to devote a higher percentage of their dwindling business to the private brands that A&P manufactured. This pressure came at a time when the power of television advertising was pulling consumers away from the private brands of a declining chain and toward nationally advertised products.

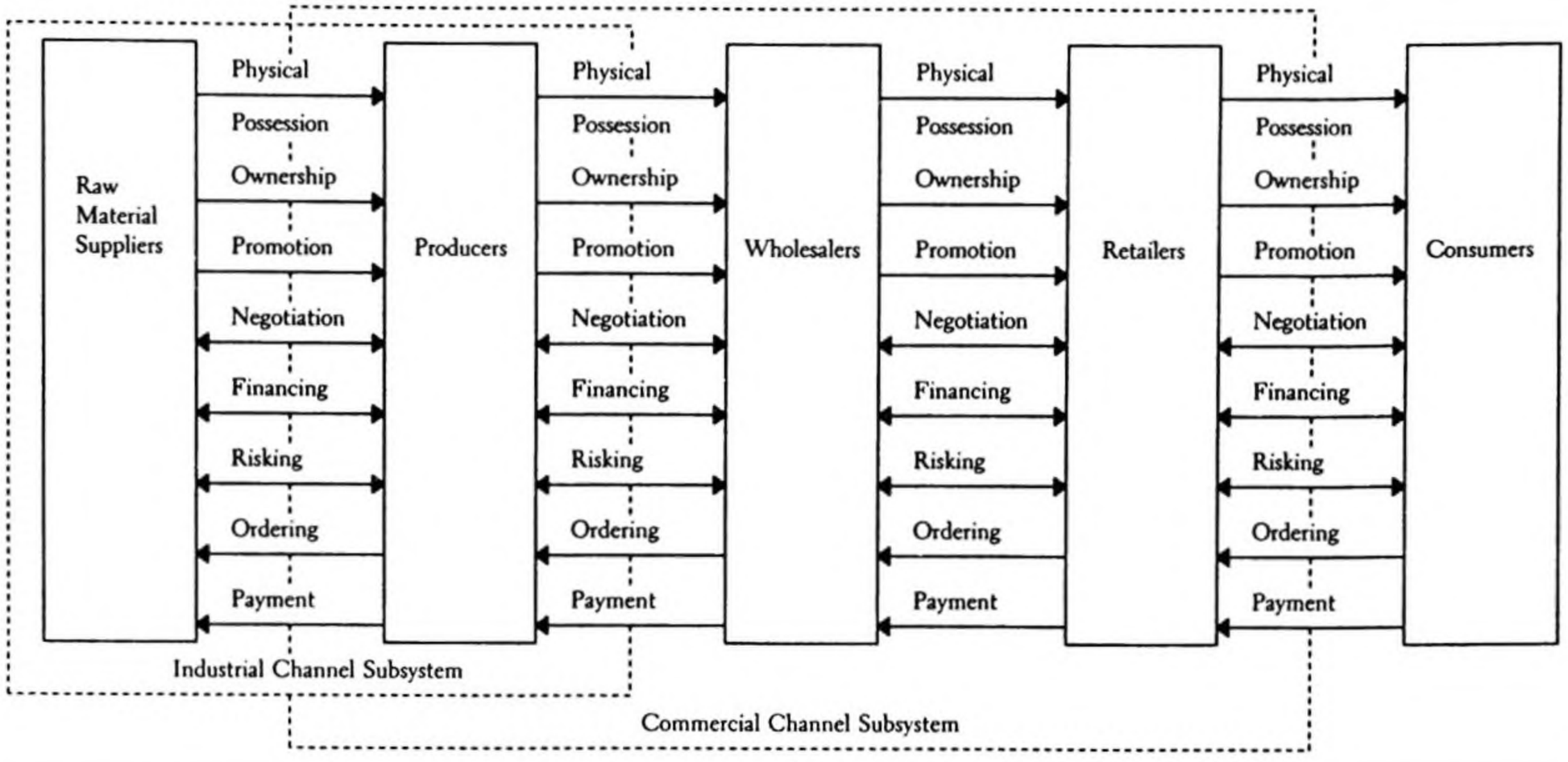
In exhibit 6–1, I have used a modified version of a chart published by Louis W. Stern and Adel I. El-Ansary in their standard textbook, *Marketing Channels,* to present a generic picture of the structure and function of the vertical system. In neoclassical economic theory, each one of these five stages interacts with its neighbor(s) through the medium of an impersonal market. In the real world of American business during the past century, the visible hand of managerial coordination has reached forward or backward, depending on the industry, to guide the flow of product from one stage to the next.

Ownership is not the only means of coordinating a vertical system. In so-called administered systems, one firm or some combination of firms develops programs that coordinate the marketing system. System members accept the leadership of the firm in question because of its power position. The contractual system takes the administered system one step further by legally formalizing these programs. Thus vertical marketing systems can be thought of as falling into four categories: conventional (the market-mediated structure of exhibit 6–1), administered, contractual, and corporate (the integrated system in which multiple levels are owned by the same firm).[28] Exhibit 6–2 arrays these four systems on a continuum to show the progression from control by impersonal market forces to control by managers. These systems are not necessarily mutually exclusive. Indeed, in many of the situations recounted in this book they coexist. Thus, in the 1920s, Coca-Cola had a conventional market relationship with sugar suppliers, a corporate relationship with some of its bottlers and a contractual relationship with others, and an administered relationship with soda fountains and food stores.

The argument of this book is that to create and organize mass markets, firms had to move away from the conventional marketing system and toward managerial coordination. This has not necessarily meant toward total vertical integration.[29] We have, in fact, seen instances of retreats from total vertical integration in the previous chapters. To choose one example, in 1905, an individual consumer could purchase a car directly

EXHIBIT 6–1

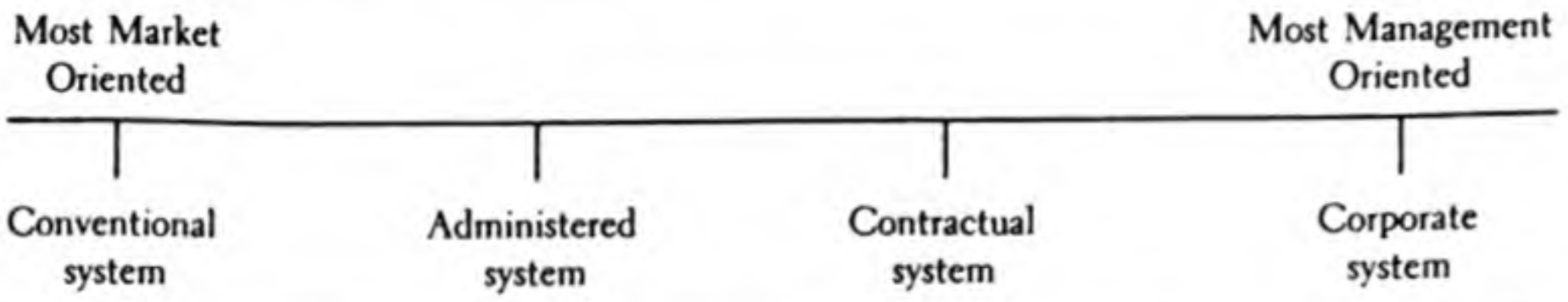
The Structure and Function of the Vertical Marketing System



SOURCE: Adapted from Louis W. Stern and Adel I. El-Ansary, *Marketing Channels* (Englewood Cliffs, N.J.: Prentice-Hall, 1988), 12. Stern and El-Ansary adapted this figure from R. S. Vaile, E. T. Grether, and R. Cox, *Marketing in the American Economy* (New York: The Ronald Press, 1952), p. 113. Copyright 1952 by The Ronald Press Company. All rights reserved.

EXHIBIT 6–2

The Four Types of Vertical Marketing Systems



from the Ford Motor Company. In 1917, the individual could not do so. He had to purchase from an independent retailer.

What I do want to assert is that during the past century there has been a movement away from the conventional system of marketing and toward some combination of the administered, contractual, and corporate systems. For the world of twentieth-century consumption to be brought to the American citizen, it has been essential that channel commanders create super-organizations to provide the products.[30] To use the seminal metaphor of Alfred D. Chandler, Jr., the "visible hand" of managerial coordination has been needed to supplement and to supersede the market.[31]

This assertion is contrary to the mainstream of modern economic theory and also to those aspects of public policy shaped by that theory. Yet I believe the history presented by this book can accept no other interpretation. If my interpretation is correct, the question becomes: Why? What did the visible hand of management do that the invisible hand of the market did not do and could not have done? I offer two answers, one dealing with technology and the other with human imagination.

The manufacture of many consumer products in the twentieth century demanded large plants. Think of the heavy costs involved in building Ford's plant on the River Rouge, costs that had to be absorbed prior to the generation of any revenue. When these giant works were run full and steady, the greatest stream of profits in the history of the world were within reach. Should output falter, however, losses just as great were guaranteed. The key point is that the vertical "value system," to use Michael E. Porter's term,[32] is only as strong as its weakest link. Not just the moving assembly line at the River Rouge but every step in the value system must "line out." If raw materials are unavailable, if inventory is mismanaged, if parts are not available precisely when and where needed, and if they are not of the requisite quality, the whole system fails. As the firm grows larger relative to the suppliers or distributors, vertical integra-

tion may become essential. In the meantime, the growth of the firm makes it more possible.

The genius of modern business has been the conversion of high fixed costs to low unit costs. These low unit costs could only be achieved if the fixed capital represented by the plant (or even by such marketing expenditures as advertising) were utilized as intensively as possible. Capacity utilization could not be guaranteed without volume. In other words, mass production demanded mass marketing. With the plant moving toward rated capacity thanks to mass marketing, unit costs continue to drop. As unit costs drop, unit price drops. As unit price drops, market share expands (but the market itself may expand even more quickly). With the expansion of market share by the firms that make the fixed investment in production (the plant) and/or marketing (e.g., advertising), the number of competitors declines. There is a market "shake out." The industry becomes an oligopoly. But note how this has been done—not through a conspiracy to raise prices but through investment and innovation; not through restriction of output but through its sharp increase; not through reliance on the market but through its supersession. The idea that neoclassical competition yields low prices and oligopoly yields nothing more than "monopoly rents" is a deduction killed by a fact.

Let us now discuss the second reason for managerial coordination of the vertical system: human imagination. Consider Asa Candler. He bought Coca-Cola in 1891, at a time when it was going nowhere. He believed in the product and wanted to share it with the whole country. But the world of the conventional system was a world of commodities. How could he build the Coca-Cola brand? The answer, as discussed earlier in proposition 2, was through his sales force and through advertising.

For many businesspeople in the late 1890s, advertising was a hole to throw money into. When Campbell's Soup appropriated its first funds for advertising in 1899, the secretary said to the treasurer: "Well, we've kissed that money goodbye!"[33] To the present day, the rules of accounting call for advertising to be expensed on the income statement. The reason is quite logical: It is difficult for an auditor to determine how much persuasion a given expenditure for advertising actually purchases.

Candler, however, instinctively understood that advertising was essential because the Coca-Cola brand was the only real asset his firm had. He could announce without panic in 1892 that his expenditures for advertising were not yielding returns because—unlike a financial accountant—he did not expect those expenditures to yield returns in a single fiscal year. He was investing for the future on the hunch that consumer pull would organize the distribution system without the necessity of owning it. He

could approach fountains and later bottlers with a credible claim to consumer preference. If they wanted to share in that asset, they had to make a contribution in terms of an investment of their own capital in, for example, bottling equipment or wagons.

Without this key tool of vertical organization, advertising, there would have been no Coca-Cola. Without the adoption of the role of channel commander, this company could not have introduced this new product. Without the vision, drive, and willingness to assume risk of Candler, the advertising investment never would have been made.

First-Movers and Entry Barriers

The competitive contests discussed in this book show how some exceptional firms piloted by remarkable individuals managed to climb to the top of their industries. Those firms able to coordinate production and distribution to pursue the strategy of profit through volume reaped rewards in terms of return on investment of a magnitude that astounded both those involved and American society as a whole.

These returns stood forth as a beacon to competitors. Other entrepreneurs and other firms naturally wanted to have some of this bounty for themselves. Yet newcomers often found that it was not easy to build a platform from which they could compete against a company that had become solidly established as market leader.[34] All the first-movers discussed in this book sooner or later had to cope with competition, but it is noteworthy that all the first-movers are still in business today. This competitive strength and longevity result in part from first-movers' success in creating barriers to the entry of competition.

Barriers to entry are "the disadvantages that entrants face relative to incumbents"[35] and are an "inherent feature" of any market.[36] Porter lists nine general categories of barriers: economies of scale, proprietary product differences, brand identity, switching costs, capital requirements, access to distribution, absolute cost advantages, government policy, and expected retaliation.[37]

Capital requirements, especially those arising in industries where minimum efficient scale is high, are the most apparent of entry barriers. They are apparent in the literal sense; you can see them. In 1896, Henry Ford built his quadricycle in a shed in his backyard. By 1910, the plant at Highland Park was in operation. By 1913, when the moving assembly line

was installed at Highland Park, Ford and General Motors already accounted for half the industry's unit sales. For any new firm to compete, it had to make a huge investment in plant; and it also had to acquire the expertise that the first-mover had already accumulated.

The giant mail-order firms also made major investments in plants. Sears's "Great Works" went up on Chicago's West Side in 1905 and was soon capable of processing 100,000 orders a day. Not long thereafter, Sears built similar establishments all over the nation. Any firm that had aspirations to enter national mail-order, general-merchandise retailing had to match Sears's investment. Not only would such distribution centers have to be built, which would invariably have meant taking on a load of debt, but somehow the expertise needed to run them had to be acquired as well. The difficulty involved here was heightened by the fact that during the course of the twentieth century, the rural market, which was the primary target of the mail-order merchants, was declining as a percentage of the national market. It is for these reasons that Robert Wood could confidently predict in 1937 that Sears and Ward would never face competition from a new entrant in the mail-order portion of their business.

It is the very absence of such capital requirements or of scale economies in manufacturing that makes the longevity of Coca-Cola's monopoly at first so puzzling. Unlike Ford with the River Rouge or Sears with its Great Works, there was no "big plant up on the hill"—no palpable barrier to entry generated by first-mover advantage—that Coca-Cola could point to. Capital assets required to build a syrup plant were not great.

And yet, Coca-Cola was by far the dominant nationally distributed product of its kind from its founding in 1886 to the 1930s. Even in the 1930s, Pepsi-Cola was able to enter the market only by giving more for less. This is often an option in business, but it is risky if based not on cost advantage but on the market leader's price umbrella. When commodity prices rose after World War II, Pepsi could not keep its own prices down. In all probability, it would have gone bankrupt had it not been saved by the brilliance of Coca-Cola-trained Alfred Steele in the 1950s.

How was it possible for Coca-Cola to maintain its position for so long? The answer is that it was able to exploit its first-mover advantages fully and to turn them into long-term barriers to the entry of competitors. What were these first-mover advantages? Let us focus on three of the barriers noted earlier: brand identity, access to distribution, and expected retaliation.

1. Brand identity was the keystone of Coca-Cola's strategy. The company quickly established the product's name throughout the nation by its commitment to intensive distribution and massive advertising expenditures. Coca-Cola managed to position itself for the mass market as the

quintessential democratic luxury. No other product ever came so completely to represent America to itself and to others around the world.

2. Access to distribution. Porter has written that the first-mover has the opportunity to

> gain unique channel access. . . . It can pick the best brokers, distributors, or retailers, while followers must either accept the second best, establish new channels, or persuade the first mover's channels to shift or divide their loyalties.[38]

This is what happened in the case of Coca-Cola. For decades following Asa Candler's purchase of the company, Coca-Cola was engaged in a laborious, town-by-town process of dealing with jobbers, with hundreds of thousands of soda fountains, and, after 1900, with hundreds of bottlers. In those fountains, Coca-Cola installed large, highly visible red dispensers, which some readers will doubtless remember. These dispensers were sold on the condition that they serve only Coca-Cola. Only Coca-Cola had a field force of service men trained and equipped to blanket the nation maintaining this equipment and teaching fountain proprietors how to use it.

As far as bottling is concerned, for more than half a century all over the country, if you were in the bottling business either you bottled Coca-Cola or you were poor. And if you bottled Coca-Cola, the franchise agreement ensured that you bottled no other cola.

3. Expected retaliation. The company protected its consumer franchise through the vigorous legal defense of its trademark.

What would Porter's list of entry barriers have looked like had his *Competitive Advantage* been published in 1880 instead of in 1985? No such list could have been compiled for most consumer products, which explains a lot about the changes that have taken place in consumer marketing over the past century. There were minimal economies of scale in manufacture, so capital requirements were trivial. With costs low, so were absolute cost advantages. There were few proprietary product differences, which made the establishment of a brand identity problematic. The consumer lived in a world not of brands but of commodities. Indeed, the consumer market in 1880 was characterized not by packaging but by packing.[39] In a world of packing, the packer was king, which is why the wholesaler was then the key functionary in marketing.[40] Other than the wholesaler, no one had effective access to distribution. There was no national distribution anyway, because the railroad network was incomplete. With no clearly defined set of national players, a new entrant did not have to fear retaliation. Finally, government policy was not a factor. There was none.

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The Competitor's Options

Attracted to a market's high returns, the potential entrant finds itself blocked from them by the barriers described in the preceding section. What are the options available to it? There are two. The entrant can attempt to execute essentially the same strategy as the incumbent. Duplicating successful strategy is tempting, because "[I]ncumbents have demonstrated how to execute it and customers have shown that they accept it."[41] Success depends on whether the entrant has superior resources in terms of organization or capital to execute the same basic plan as the incumbent. Because the basis of this option is execution rather than some new strategic insight, we might label it the implementation option.

The strategic option, on the other hand, is characterized by some new view of what the market wants or some new channel configuration to link manufacturer and consumer. When skillfully executed, the strategic option can turn the incumbent's greatest strengths against it. By redefining the game, the entrant might be able to turn the incumbent's barriers to entry—a strength—into barriers to incumbent mobility—a weakness.

This book has provided examples of both types of entry strategies, as outlined in exhibit 6–3.

In the soft drink industry, Pepsi-Cola for years attempted to compete

EXHIBIT 6–3

Entry Strategies

	Soft Drinks	Automobiles	Grocery Retailing	General-Merchandise Retailing
Implementation Option	Pepsi versus Coke in the early years (1895–1920)		Kroger, First National, and other chains versus A&P (1920s)	Sears versus Ward (1890s)
Strategy Option	Pepsi price strategy (1930s); Pepsi Generation (1960s)	GM's introduction of the price pyramid and annual model change to combat Ford's Model T (1920s)	King Kullen and the other supermarket operators	Discounters and specialty stores versus Sears (1970s)

against Coca-Cola by doing what Coke did but by doing it better. Although Pepsi experienced some success in the early years of this century, its bankruptcy after World War I turned it into a dormant product for a decade. When Charles Guth bought Pepsi, it continued to languish at first. Its only sales were through Loft, of which Guth was president.

It was Guth who breathed life into this product in 1933. This he did by adopting a low-price strategy—an approach to the business fundamentally different from Coke's. "Twice as much for a nickel, too" had real impact in the Depression. Under Walter Mack, the new 12-ounce bottle was supported by highly effective radio advertising.

Given the kind of advantages enjoyed by the Ford Motor Company in 1921, how could the firm's dominant position be attacked? Not by trying to do what Ford was already doing, in the view of the Du Pont interests and Alfred Sloan. John Jacob Raskob, a Du Pont associate, described the Ford as "a special car . . . not considered by us a competitor." Sloan said that "No conceivable amount of capital short of the United States treasury" could have beaten Ford "at his own game."[42] Sloan was not going to try to make a better Model T than Ford. That is why General Motors decided to play a different game. It developed the annual model and segmented the market with the "car for every purse and purpose."

This policy brilliantly put General Motors on the path of the industry's future, as style began to play an important role in the purchase and as the used car made it imperative for the manufacturer to find new ways to obsolete the vehicles already owned. The beauty of Sloan's policy was that it enabled General Motors to gain the advantages of market segmentation on the marketing end but also of the scale economies in the factory, which were essential to maintaining a leading position in this industry. According to Arthur J. Kuhn, in *GM Passes Ford, 1918–1938*:

> Important styling variables just had to be controlled by the central headquarters staff and executives. And by 1938 divisional autonomy in styling had been restricted greatly: "Divisional originality [according to *Fortune*] gets full play in hoods, cowlings, and radiator grilles." Freedom to style hoods, cowlings, and grilles—within the constraints imposed by the interchangeable chassis parts and the corporate designed body—is not much freedom.[43]

A&P revolutionized food distribution in the early twentieth century through backward integration into wholesaling and into the processing of certain commodities and through bringing system to store management. A&P was the leading firm in the chain-store movement, which quickly spread to other lines such as drugs and, with Penney's, to soft goods.

A&P was the largest retailer in the nation for about a half century (to

1965) and the largest food merchant for longer than that (to 1973). It was not a truly national firm, since it was absent from much of the nation west of the Mississippi. One way to compete against it was to copy its strategy of vertical integration and systematic store management, but to focus on a geographic area in which it did not compete. Thus Safeway, the first grocer to grow larger than A&P, was based on the West Coast.

Attacking A&P where it was strongest was another matter. In 1930, there were numerous retailers that did precisely that. People shop for food often, and location is therefore a key to food store patronage. Even though it had 15,700 stores, A&P did not have stores on every street corner. Other chains competed using systems like A&P's.

Michael Cullen tried something new. His challenge to A&P was similar to that which Pepsi posed to Coke with the 12-ounce bottle. It changed the nature of the business fundamentally, demanding a different policy toward national brand names and in-store service and generating a different income statement.

A&P's strategy was based on the age of urban rail transport. The hub-and-spoke system of trolleys determined the company's store-location policy. That era was drawing to a close by 1930. The new age of the automobile dictated a new kind of store in a new location. Cullen recognized that and placed his firm on the path of the industry's history.

Montgomery Ward came out of the 1870s as the leading general-merchandise catalog retailer in the country. It had the endorsement of the Grangers, the kind of aid to credibility that was particularly important to a merchant whom his customers never saw.

Sears, Roebuck was founded in 1893, and had a larger share of market than Ward by 1900, a position it never relinquished. It would appear that Sears beat Ward at its own game. There was no analogue to the car for every purse and purpose, to 12 full ounces, or to the supermarket. Sears was selling the same kind of merchandise to the same class of customer. The simplest explanation for its leadership may also be the best—no one ever wrote catalog copy like Richard Sears.

Ward always had its eye on Sears and competed successfully enough to cause a lot of concern until the mid-1940s. Thc tragedy of its history was its failure to grasp the opportunity presented by stores in the mid-1920s. Here was the handle to the problem of beating Sears. But it was a handle Theodore Merseles chose not to grasp.

Ford, Coca-Cola, A&P, and Sears created and organized mass markets. Thus the strategic option for their new competition was market segmentation. This strategy has been mentioned a number of times, especially with regard to General Motors's attack on the Model T and Donald Kendall's attack on Coca-Cola.

Market segmentation refers to the practice of focusing on specific consumer preferences within a general product category rather than on the general category itself. Thus, for example, the Model T Ford was originally planned as the "universal" car. No General Motors car was so planned. Rather, the "car for every purse and purpose," as the phrase implies, meant selling different cars to different sets of consumers with those sets defined by how much the consumer wanted to pay and how he or she wanted to use the vehicle.

The same phenomenon can be seen in all the markets examined in this book. There has been such a resurgence in speciality stores in so many different lines that even Sears now has a specialty retailing division. Ironically, the success of many of these specialty chains was made possible by Sears's development of shopping centers. In groceries, many of the largest large chains in addition to A&P have performed poorly over the past two decades, picked apart by regional chains and local entrepreneurs who can run leaner and more efficiently.

Surely, the most remarkable example of segmentation is in the soft drink market. Within the memory of many readers of this book, the soft drink industry was dominated by one product in one bottle. Another way of saying that Coca-Cola was the "brand beyond competition" is to say that it was the "brand beyond segmentation." Coca-Cola was the universal cola just as the Model T was the universal car.

Any modern history of market segmentation must devote a lot of attention to the Pepsi Generation campaign. This targeted the young—demographic segmentation—as well as people with a certain life-style and attitude toward life—psychographic segmentation. The image of the Pepsi Generation was of a bunch of young fellows in tip-top physical condition playing football in the California surf with some of the best-looking young women in the history of the world. (Don't take my word for it. The Smithsonian Institution has a print of the "Surf Football" advertisement. Ask to see it the next time you're in Washington, D.C.) What was the "Pepsi Generation" all about? What possible connection could this advertising campaign have had with a soft drink? The answer is that Pepsi-Cola was not trying to tell customers anything about the product. It was trying to tell customers about themselves.[44]

Divisions in markets are not new. Markets have been fragmented on the basis of geography because of difficulties in transportation and communication since trade began. The process of breaking down that local, geography-based fragmentation and creating national mass markets has been the subject of this book.

But the kind of segmentation exemplified by the Pepsi Generation campaign is new. Segmentation based not on logistics or on some genuine

product characteristics but on demographic and psychographic groupings carved out of the general population is an invention of late twentieth-century American marketing.

The old fragmentation was based on realities, but this new segmentation springs wholly from the imagination of the marketer. Pepsi and other such companies have been more interested in the term *segment* as a verb than as a noun. They have segmented markets, rather than merely responded to a market segment that already existed. There was no such thing as the Pepsi Generation until Pepsi created it.

Managing Change

Through the course of this book, we have observed the process by which the corporation manages change over time. We have observed the effects of exogenous changes in the infrastructure. We have seen how consumer tastes and needs with regard to particular products have changed. We have seen how new firms have tried to enter industries and how the basis of competition has changed. We have seen the exercise of individual skill and insight by observing first the creation of mass markets by first-movers and then the attempt of entrants either to beat the incumbents at their own game or to segment the market. Finally, we have seen how individual firms have changed—how they have sometimes fallen prey to forces that have aged them and robbed them of what made them great.

Of the many colas that entered the lists against Coke, only Pepsi scored a major success. Its resurrection from bankruptcy in the 1930s was made possible because in Loft it had an assured fountain outlet; and, most important, because as a bottled beverage it had what has ever proven an unquenchable appeal—twice as much for the same price.

Why did Coke not respond more forcefully? The cleverness of the Pepsi strategy was that it made standard responses difficult. Six-and-a-half ounces for 5 cents was the keystone of Coca-Cola's enviable income statement. The last thing it wanted to do was to endorse what was essentially a drastic price cut by competing on Pepsi's terms. Pepsi's move also threatened the value of the millions of 6½-ounce bottles owned by Coke's bottlers. Nevertheless, there were a number of options at Coca-Cola's disposal. It could, for example, have used coupons or other temporary consumer price promotions in market areas where Pepsi was strongest. A two-for-the-price-of-one "get acquainted" coupon might have effectively parried Pepsi's thrust. The two-bottle offer could have pro-

tected the sanctity of the "old reliable standard package" while actually giving the consumer one ounce more than Pepsi did.[45] The "get-acquainted" approach would also have put the consumer on notice that this was not a permanent price cut. It was temporary; that is, to last until Pepsi's next bankruptcy. Another option might have been a "fighting brand." Introduced at cut-rate prices and targeted where Pepsi was strongest, this might have been an effective tactic.

There is no evidence that Coke considered such possibilities. Perhaps Coke's executives felt it would be too difficult to mobilize the bottlers. One would imagine, though, that the bottlers could have been induced to take action by the appropriate financial incentives. Perhaps Coke felt that a response to Pepsi would have been expensive. And so it would have been. But a consumer franchise is a valuable thing to own and worth spending to protect. Perhaps—and this strikes me as most likely—Coca-Cola simply did not believe in Pepsi's staying power. So many colas had come and gone in the past, including the twice-bankrupt Pepsi. If this was the view of Coca-Cola's executives, they were almost right. With no cost advantages, Pepsi had to abandon its nickel price as commodity prices rose after World War II.

Pepsi's recovery in the 1950s after Alfred Steele took over is possibly more impressive than its performance in the 1930s. It had to abandon the one appeal that always scores—price—and to start playing Coca-Cola's image game. That it did so with such success under Steele and more impressively still with Donald Kendall's Pepsi Generation segmentation strategy is a tribute to both those executives. Coca-Cola's reluctance to respond vigorously also helped. It held on too long to its own marketing mind-set as the brand beyond competition.

The striking thing about the Ford-General Motors story is that Ford had the key to marketing success but then let it slip its grasp. "The old master had failed to master change," Sloan said of Henry Ford.[46] And yet Ford had understood change so well earlier in his career. He had tried eight models before settling on the Model T. He had been willing to try different marketing systems before settling on the form he chose. He had been open-minded to suggestions from dealers about how to make his product as attuned to the market as possible.

Ford's view of business had calcified by World War I. One reason for the loss of his earlier suppleness was the enormous special-purpose investment that he had made at the River Rouge for turning out Model Ts. The cost of switching over to the Model A in 1927 has been estimated in nine figures. The company had neglected to balance the need for commitment to serving the customer with the right product at the right price against the need for flexibility in the face of a changing market and competitive

environment. Inadvertently, the company discovered the limits and limitations of the learning curve.[47]

Just as important as his capital commitment was the marketing mindset of Henry Ford. His allegiance to the Model T transcended the bounds of business analysis and entered the realm of the psychological if not psychiatric. He had to learn the hard way that "there is no such thing as an impregnable position of market leadership."[48]

As Sloan said, part of the credit for General Motors's success belongs to Henry Ford's failure.[49] Sloan saw that the key to leadership in the industry was the management of change. That required organizational capabilities far greater than those needed for the production of identical units year after year. With the resources at his disposal, Ford could have competed far more fearsomely against Sloan. He simply chose not to do so.

A&P's history in the 1930s shows how perspicacious executives could effectively respond to a potentially devastating competitive entry. The supermarket revolution changed the world of A&P's greatness. At first, A&P and the other chains responded the way Ford responded to the annual model change and Coca-Cola to 12 full ounces. Disbelief. The "cheapy" was a "food circus" that would die a natural death soon enough.

John Hartford's greatness lay in the fact that he was able to see beyond rationalization to the evidence in front of him. When Michael Cullen put a King Kullen near an old-style A&P, the result was disastrous; and there was no arguing with it. Hartford was also able to see beyond the outward manifestation of his company—the 15,700 stores—to its true meaning to the consumer. "It has always been our idea—we have been volume."[50] His company did not exist for the stores. The stores existed for the consumer. If the stores were not right, they had to be fixed.

And they were fixed. It took time. Not until 1938 was A&P fully committed to the supermarket strategy. It was able to move only because John's older brother George had never let it become too committed to the multiple-small-store approach. To the contrary, he kept the company on 1-year leases; and therefore it was flexible enough to move into the new format when that became necessary. A&P succeeded at the supermarket game. It went into the Depression the nation's fifth biggest industrial company and emerged from World War II still ranked fifth.

Had Robert Wood been running A&P after World War II, it might still be the nation's largest grocer. Wood moved Sears heavily into the South and the West because his foresight told him that the middle classes would be heading there. Ford did not move in the face of necessity. Hartford did move after he saw what had happened. Wood moved because he saw what *would* happen.

Wood, in 1945, did not have to launch Sears on its most daring and

expensive move since going into stores. He was not pushed by the competition. To the contrary, Sewell Avery had told him that in expectation of another depression Ward was going to pursue the opposite strategy.

Wood did not wait to be under the gun to make his big move. Sears was doing quite well. No one would have criticized the company for a conservative postwar policy. If Wood had pursued such a policy, Sears would have done fine, just as Ward did fine. The problem with Avery's conservatism did not become apparent until the early 1950s. But Wood understood that the time to make a change is when you don't have to. A&P tried to change in the 1970s, but by then it was too late.

Concluding Observations

It has been the purpose of this book to show how the business firm, around the turn of the century, created and organized mass markets in a whole variety of industries and how the business firm in more recent years has created segmented markets.

I do not mean to suggest that corporations are full of manipulators who spend their time convincing people to like what they are getting rather than giving them what they really prefer. No one familiar with how business works thinks that a company can foist a product on an unwilling customer or change the will of the customer.[51] Statistics on new product failures as well as simple common sense belie such a view.

By the same token, however, I take issue with the view that consumer satisfaction is the sum and substance of the marketing task. What we have seen in this book is how a leader of vision together with an inspired organization can shape and mold a market.

Marketing is about the interplay between company and customer within the context of competition. The customer has a veto. Fortunately, we do not live in a command economy, and no customer owes any company a living. But it is the company that takes the active role, and therein lies its power. I leave this study with a heightened respect for the power of the firm and for the power of a leader within the firm.

The customer disposes. But the company proposes.

Notes

1. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations,* ed. Edwin Canaan (New York: Modern Library, 1937), 144.

2. "General Motors: Part I of a Study in Bigness," *Fortune,* Dec. 1938, 67.

3. This is an important theme of Daniel J. Boorstin's *The Americans: The Democratic Experience* (New York: Vintage, 1973), 89–164.

4. Quoted in David M. Potter, *People of Plenty: Economic Abundance and the American Character* (Chicago: University of Chicago Press, 1954), 135.

5. In 1951, David Riesman published a fictional story about an American bombardment of the Soviet Union with consumer goods. "Behind the initial raid of June 1 were years of secret and complex preparations, and an idea of disarming simplicity: that if allowed to sample the riches of America, the Russian people would not long tolerate masters who gave them tanks and spies instead of vacuum cleaners and beauty parlors" (David Riesman, *Abundance for What? and Other Essays* [Garden City, N.Y.: Doubleday, 1964], 67–79). After this story was published, Riesman received letters and phone calls asking for more information on the "war."

6. Quoted in Potter, *Plenty,* 135.

7. John Sculley, *Odyssey: Pepsi to Apple, A Journey of Adventures, Ideas, and the Future* (New York: Harper & Row, 1987), 336–37.

8. Charles Howard Candler, *Asa Griggs Candler* (Atlanta, Ga.: Emory University, 1950), 109.

9. Coca-Cola Company, *Annual Report, 1892.*

10. Smith, *Wealth of Nations,* 63.

11. Richard S. Tedlow, "The Business Archive: Background and Direction," in *Entrepreneurship: What It Is and How to Teach It,* ed. John J. Kao and Howard H. Stevenson (a collection of working papers based on a colloquium held at Harvard Business School, July 5–8, 1983), 258, 253–69.

12. Richard Cantillon, *Essai sur la Nature du Commerce en Général* (1755; Paris: Institut National d'Etudes Demographiques, 1952).

13. Quoted in Arthur H. Cole, "An Approach to the Study of Entrepreneurship: A Tribute to Edwin F. Gay," in *Explorations in Enterprise,* ed. Hugh G. J. Aitken (Cambridge: Harvard University Press, 1967), 32–33.

14. Ibid.

15. Thomas C. Cochran, "Entrepreneurship," in *International Encyclopedia of the Social Sciences,* vol. 5 (New York: Free Press, 1968), 88–89.

16. Jonathan Hughes, *The Vital Few: The Entrepreneur and American Economic Progress* (New York: Oxford University Press, 1986), 14.

17. Johan Arndt, "The Political Economy of Marketing Systems: Reviving the Institutional Approach," *Journal of Macromarketing* 1 (Fall 1981): 37.

18. For the role of critical incidents in the development of corporate culture, see Edgar H. Schein, *Organizational Culture and Leadership* (San Francisco: Jossey-Bass, 1985), 148–84.

19. Joseph A. Schumpeter, *Capitalism, Socialism and Democracy,* 3d ed. (New York: Harper & Row, 1950), 132.

20. Ibid.

21. Boorstin, *Democratic Experience,* 523–98.

22. This is the thesis of Harold C. Livesay, "Entrepreneurial Persistence Through the Bureaucratic Age," in *Managing Big Business: Essays from the Business History Review,* ed. Richard S. Tedlow and Richard R. John, Jr. (Boston: Harvard Business School Press, 1986), 107–35.

23. This is not as far-fetched as it might at first seem. Some brewers owned their own taverns from the 1880s through Prohibition. Daniel A. Pope, *The Making of Modern Advertising* (New York: Basic Books, 1983), 81–82.

24. Interview with soft drink company executive, Mar. 1983.

25. The leading proponent of transaction costs in recent years has been Oliver E. Williamson. See his *Markets and Hierarchies: Analysis and Antitrust Implications* (New York: Free Press, 1975); and *The Economic Institutions of Capitalism* (New York: Free Press, 1985).

26. Theodore V. Houser, "The Whys and Wherefores of Sears Merchandise," 30 Mar. 1939, papers of James C. Worthy, in his personal collection.

27. Donald R. Katz, *The Big Store: Inside the Crisis and Revolution at Sears* (New York: Viking, 1987), 411.

28. Louis W. Stern and Adel I. El-Ansary, *Marketing Channels,* 2d ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1982), 306–58.

29. For an enumeration of the pros and cons of vertical integration, see Robert D. Buzzell and Bradley T. Gale, *The PIMS Principles: Linking Strategy to Performance* (New York: Free Press, 1987), 163–81.

30. Stern and El-Ansary, *Channels,* 215.

31. Alfred D. Chandler, Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge: Harvard University Press, 1977).

32. Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (New York: Free Press, 1985), 34–35.

33. Pope, *Advertising,* 61.

34. For a useful review of the literature on first-mover advantage, see Marvin B. Lieberman and David B. Montgomery, "First-Mover Advantages," *Strategic Management Journal* 9 (1988): 41–58.

35. George S. Yip, *Barriers to Entry: A Corporate-Strategy Perspective* (Lexington, Mass.: D.C. Heath, 1982), 17.

36. George S. Yip, "Gateways to Entry," *Harvard Business Review* 60 (Sept.–Oct. 1982): 86.

37. Porter, *Advantage,* 6.

38. Ibid., 187.

39. Boorstin, *Democratic Experience,* 434–47.

40. For the changing role of the wholesaler in the nineteenth-century American economy, see Glenn Porter and Harold C. Livesay, *Merchants and Manufacturers: Studies in the Changing Structure of Nineteenth-Century Marketing* (Baltimore, Md.: Johns Hopkins University Press, 1971).

41. Yip, "Gateways," 87.

42. Alfred P. Sloan, Jr., *My Years with General Motors* (Garden City, N.Y.: Doubleday, 1963), 76; John Jacob Raskob to William McMaster, letter, Du Pont Administrative Papers, Accession 1662, Box 36, File 86, Hagley Museum and Library, Wilmington, Del.

43. Arthur J. Kuhn, *GM Passes Ford, 1918–1938: Designing the General Motors Performance-Control System* (University Park, Pa.: Pennsylvania State University Press, 1986), 125.

44. Daniel A. Pope has described advertisements in which "the context rather than the product becomes, in a sense, the object of the consumers' desires . . ." (*Advertising,* 280).

45. The idea of a two-for-one deal was suggested to me by Mr. Lloyd E. Cotsen, president of the Neutrogena Corporation.

46. Sloan, *My Years,* 187.

47. William J. Abernathy and Kenneth Wayne, "The Limits of the Learning Curve," *Harvard Business Review* 52 (Sept.–Oct. 1974): 109ff.'

48. Buzzell and Gale, *PIMS,* 189.

49. Conversation with Alfred Chandler, Boston, Mass., Fall 1988.

50. In the District Court of the United States for the Eastern District of Illinois, United States v. The New York Great Atlantic and Pacific Tea Company, Inc. et al., No. 16153 (criminal). Testimony of John A. Hartford, 20,439.

51. John Kenneth Galbraith, for example, overestimates the power of modern marketing in *The Affluent Society* (Boston: Houghton Mifflin, 1959). See also Charles H. Hession, *John Kenneth Galbraith and His Critics* (New York: Signet, 1972), 64–134.

[39]

Development of Marketing in the Course of Industrialization in Korea

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Introduction

What, how, and for whom should goods and services be produced? Differences in social value judgements will lead to different solutions in each society. Under a free economic system, a price mechanism is supposed to allocate scarce resources to each industry. Since Chamberline, non-price variables have exerted a strong impact on business activities. Especially in developing countries, the role of marketing has been reevaluated in its practical contribution to the economic growth and welfare of a society.[1] We can consider two kinds of business decisions: those to get rid of internal and external constraints, and those to direct the optimal level, mix, and allocation of available resources under given constraints. Marketing decisions involve the two kinds of decisions simultaneously. Therefore it is the perspective of this author that marketing can be an effective pathway to economic development.

In this paper it is intended to trace the changing recognition of marketing development along with the rapid process of economic growth in Korea. With this perspective it is fruitful to compare and analyze "marketing in the course of industrialization and internationalization."

The first part reviews the historical process of introducing modern marketing over the last seventeen years.[2] In Table 1, 674 articles are classified by period and subject. This analysis describes the changing topics and analytical techniques as well as the position of automobile marketing in the history of marketing in Korea.

TABLE 1 Changing Areas of Interest in Marketing Development over the last 17 years.

Classification of Marketing Development	The period of Introduction (1962–1966)	The period of Conceptualization (1967–1971)	The period of Marketing Development (1972–1976)	The period of New Marketing concept (1977–1978)	Total
Major product lines of analysis* / Information output & analytical process	medicine 4 agricultural & marine products 2 raw silk 1	medicine 13 clothes 14 food 6 autos 7 electrical appliances 6 agricultural & marine 27	medicine 19 clothes 13 daily products 10 electrical appliances 14 agricultural & marine 30	medicine 5 clothes 12 autos 5 agricultural & marine products 4	
I. Market Opportunity (target market, identify unmet needs, consumption pattern, market position)	3	86		10 (48%)	99
a. Image and behavioral studies		6	31	7	49
b. Market segmentation		4	8	1	13
c. Market share analysis			4	1	5
d. Sales trend analysis		2	1	2	5
Subtotal	3	98 (41%)	44 (14%)	21 (27%)	166
II. Marketing Resource Deployment					
a. Product studies		6	25	1	32
New product tests		3		1	4
Packaging tests		1			1
Design and style studies				1	1
Subtotal		10	25	3	38
b. Promotional studies	2	1	31	1	35
Media analysis		13		4	17
Media effectiveness		3			3
Message effectiveness		2		1	3
Sales promotion		18		5	23
Personal selling		4		2	6
Subtotal	2	41	31	13	87
c. Price studies					
product line price	5	8		1	14
competitive price					
promotional pricing					

d.	Physical distribution; stock turnover, warehouse origin and destination, location, breadth and depth of stock assortment	1	14	2	17
e.	Channel network analysis; channel conflict, vertical marketing system, dealer policy	1	31 (35%)	46 (14%)	9 (10%)	87
	Subtotal	3	88 (37%)	124 (39%)	28 (35%)	243
III.	State of Nature	2		21		23
a.	Competition		2	12		14
b.	Invention and change, technology transfer		2	10		12
c.	Distribution stracture		16	10	5	31
d.	Legal studies		8	3	2	13
e.	Consumerism and ecological issues		5	13	3	21
	Subtotal	2	33 (14%)	69 (21%)	10 (13%)	114
IV.	Export Marketing	1	21 (8%)	82 (26%)	20 (25%)	124
	Total	9	240	319	79	647

* The number on the right side of each commodity describes the number of articles dealt with for that product.

The development of marketing is also constrained by the distribution structure in each country; changing environmental forces induce subsequent change in distribution structure. The second part examines these environmental forces and special features in designing a new distribution structure in order to keep pace with the economic growth.

The third part of this paper describes some of the major characteristics of automobile marketing over the last twenty years. Korea has been an attractive market for such motor companies as General Motors (GM) or Ford. However the local market is not big enough to develop its own industry. This is a dilemma that might be solved by the application of modern marketing. It is a question of how

the three domestic motor companies can survive and grow in the future.

The fourth part summarizes the major contents of this paper as a conclusion.

I. The Historical Process of Introducing Modern Marketing over the Last Seventeen Years

The development of marketing can be traced by looking back upon the changing pattern of consumption. Among those factors that have influenced the consumption pattern are the Korean War and the Korean government's series of five-year economic development programs since 1962. Following the Korean War in 1950 the continuous overflow of U.S.-made or Japanese-made goods was strong enough to change the way of life into two types of market behavior; the rich were anxious to use the blackmarket, the poor were striving to survive in daily life. During the war, most of the productive facilities were destroyed. From 1953 to 1961 the Korean economy experienced all the disadvantages of a dual economy as well as social and political turmoil. Where domestic producers could not find an effective demand, there was no ground for marketing development.

After the military revolution in 1961, the Korean economy began to mobilize towards economic progress. Therefore, it seems natural to categorize the past period by a series of five-year economic development programs.

In Table 1, the study of marketing over the last seventeen years is classified by period, information output, product and analytical process.[3]

The first five-year period (1962–1966) can be explained as the period of introduction. During this period several marketing textbooks were published. Major commodities used as the subjects of marketing analyses included medicine, agricultural and marine products, and raw silk. The research approach in those days was just conceptual, dealing with no specific marketing techniques.

It was the successful completion of the first five-year project that stimulated the application of marketing theories to real world

problems for the period from 1967 to 1971. Therefore this period can be classified as the period of conceptualization and application. Professional journals in business management and marketing have been published since 1967. As the quality of life began to be elevated by rising incomes, there was an increased demand for basic drugs, clothes, and food. Those who had rapidly gained wealth during the early industrialization began to be sensitive to different models of automobiles.

The product lines of marketing concern widened even more broadly in the first five-year period. They covered medicines, clothes, automobiles, electrical appliances, insurance, hotels and tourism. About 40 percent of the selected articles dealt with evaluating marketing opportunities for new products. Manufacturers of consumer goods became conscious of promotional problems and channel design but they paid little attention to pricing and product studies. The general level of price and/or quality was greatly inferior to those of foreign products. The real problems for the local manufacturers were the lack of technology and the small local demand that could not guarantee an economy of scale. While large manufacturers tried to find their own channel networks, government planners also recognized the emergence of a distribution bottleneck.

There was a five-year plan for the modernization of the distribution structure which started in 1969 and ended in 1973. The essence of this plan included the introduction of a chain store operation in the retail and wholesale sector. But it was not very successful.

There was also a great demand for foreign exchange currency to carry out the five-year economic development programs. As the bottom of the third column in Table 1 indicates, many studies had been centered on export marketing. Most of these research projects were funded by the government sector. Therefore the scope of these projects naturally covered only the general analysis of demand in each country.

The third five-year period (1972–1976) can be characterized as the period of development. During this period there was much concern about the marketing environment such as competition, invention and technological transfer, ecological issues and distri-

(17)

TABLE 2 R & D Expenditure.

Year	1967		1971		1977	
Category	Total	Company	Total	Company	Total	Company
R & D*	48	7	107	13	1,083	417
% of GNP	0.38		0.34		0.71	
Gov.: Company	86:14		88:12		62.38	

* unit: $20,000

Source: *Science and Technology Annual*, Ministry of Science and Technology, Rep. of Korea, 1977 and 1978.

TABLE 3 International Comparison of R & D Expenditures in 1977.

Country / Category	Korea	Japan	U.S.A.	West Germany
R & D**	2.16	120	429	117
Gov.:Company	62:38	27:73	50:50	48:52
% of GNP	0.71	1.70	2.29	2.30

** unit: $20,000

Source: *Science and Technology Annual* (Korea, 1978), *Handbook of Science and Technology* (Japan, 1979).

bution structure. Behavioral studies were introduced to evaluate marketing opportunities. The major areas of focus were around export marketing, distribution structure and individual channel networks, and product studies. But price studies and legal studies were still the two neglected areas of marketing in this period. The major product lines of marketing analysis in Table 1 reflect those industries which had realized the need for the application of modern marketing techniques.

If industry management does not realize the urgent need to apply marketing concepts to their business, modern marketing cannot be easily introduced in that industry. Among those factors that influence the formation of new marketing concepts are the transition from sellers' market to buyers' market, the need to secure a certain market position, the need to study the consumer behavior of the target market, and the development of new products to satisfy unmet consumer needs.[4] These factors are the core elements

of the "new marketing concept." Modern marketing should incorporate the operation of the new marketing concept. In this respect, technological development and research and development (R & D) expenditure may be used as an indicator for the evaluation of modern marketing development in each industry. Therefore, inferring from Table 1, modern marketing has not yet been developed in such industries as cameras, automobiles, aircraft, computers and atomic plants. Table 2 compares R & D expenditures by absolute amount, percentage of GNP, and government versus private company.[5] In 1977, the R & D expenditure was ten times that of 1967. It also shows that private companies too had increased their portion of R & D expenditure upon realizing the importance of new technological development.

Table 3 indicates that R & D activities of private companies in Korea are still far behind those of Japan, the U.S.A. and West Germany.

It is possible to derive the following inference from the above three tables. Some private companies in such industries as medicine, agricultural and marine products, electrical appliances, textiles, and automobiles had recognized the sales concept of pushing their products into markets at a high price. Since 1972, the importance of the new marketing concept has been realized in several basic commodities (textiles, electric appliances, medicines, etc.). If we examine the size and trend of R & D expenditures, which is the core of the new marketing concept, the major product lines of modern marketing analyses are still too limited in Korea. It is necessary for both government and private sectors to expand R & D expenditures, for modern marketing through R & D will direct a better way of resource allocation, and thereby increase the quality of life in developing countries.

II. Emergence of a Distribution Bottleneck

Despite rapid economic development during the last seventeen years, the distribution structure was not able to absorb increasing economic activities. As an attempt to change the traditional market structure, the Korea Marketing Association (K.M.A.) was estab-

lished in August 1969. K.M.A. has carried out a series of studies and recommendations on how to improve marketing systems in Korea. During the period between 1970 and 1978, K.M.A. engaged in more than forty research projects. Among them was the five-year plan (1969–1973) for the improvement of marketing systems.

1. Characteristics of Traditional Marketing Institutions

The most visible point from Table 4 is the extremely small size of a large number of individual retail units in the structure of marketing institutions for the years of 1968, 1971 and 1976. More than 98 percent of wholesaling was operated by individual ownership, but, during the period from 1971 to 1976, corporate forms of retailers increased by 9 percent. In an effort to introduce new innovative retail institutions, the Korean government provided various financial incentives for the super-chain organization of mass merchandising companies.[6] More than 98 percent of retail store units employed less than five persons. The percentage of retail stores whose sales were more than $100,000 had increased from 0.08 percent in 1968 and 1971 to 1.9 percent in 1976.[7] This growth reflected the successful operation of large retail institutions such as department stores and super-chain stores.

The second problem was the lack of well established trade practices between channel members and customers. There was much haggling over prices. Retailers used to push away low-quality products selling at a high price. Retailers and/or wholesalers would engage in cornering and hoarding in order to manipulate the market price.[8]

The third problem was the ease with which many intermediaries in the channel network had transferred distribution costs.

The fourth problem was the conflict among landowners, building owners and merchants. Since most of the merchants did not have enough money to buy their own store building, they had no interest in doing a better business. Increased sales might induce increased rent, and finally the landowner would take over the successful business. It is clearly indicated in Tables 4 and 5 that channel structure was very stable over the last ten years; so was the consumption pattern of all families in cities (Table 6). From these

TABLE 4 Structure of Marketing Institutions: 1968, 1971 and 1976.

	Establishment (% of total)			Private management (% of total)			No. of stores employing fewer than (% of total)			No. (and %) of stores with annual sales greater than $100,000		
	Year											
	1968	71	76	68	71	76	68	71	76	68	71	76
	Types of M. Institution											
Wholesaler	4.8	4.9	4.9	99.68	99.81	98.95	80.3	81.8	77.6	542 (4.1)	1300 (7.9)	6314 (31.4)
Retailer	95.2	95.1	95.1	95.82	98.28	87.38	98.7	98.2	98.2	214 (0.08)	289 (0.08)	6939 (1.9)

Source: Adjusted by this author from the tables in "Dynamic Changes of Korean Marketing Structure" by Kim, W. S., *The Korean Business Journal* (December 1978), pp. 52–101.

TABLE 5 Structure of Retail Stores: 1968, 1971 and 1976 (% of total).

	1968	1971	1976
Food Stores	48.9	50.4	50.5
Textile and Clothing Stores	20.1	20.3	15.3
Drug Stores	7.3	6.4	4.9
Others	23.1	22.9	29.3
	100.0	100.0	100.0

Source: Adjusted by this author from the table in "Dynamic Changes of Korean Marketing Structure" by Kim, W. S., *The Korean Business Journal* (December 1978), p. 75.

TABLE 6 Monthly Consumption Expenditure of All Families in Cities (% of total).

	1967	1971	1976
I. Food and beverages	44.2	41.0	43.0
1. Cereals	20.2	17.7	19.5
2. Meat, fish, milk & eggs	7.2	8.6	7.8
3. Vegetables, seaweed & fruit	8.6	6.8	6.3
4. Condiments	8.2	3.3	3.7
5. Others		4.6	5.7
II. Housing	18.4	18.8	18.0
III. Fuel and lighting	5.8	5.4	4.8
IV. Clothing	10.3	9.4	9.0
V. Miscellaneous	21.3	25.4	25.2
	100.0	100.0	100.0

Source: *Economic Statistical Yearbook*, Economic Planning Board, 1968 and 1978.

inferences, we can assume that a traditional distribution structure cannot easily be changed in a short period.

2. Environmental Changes

Along with the rapid economic growth, there has been a visible change in the marketing environment. Efficient methods of transportation such as subways and the highway network have had a significant influence on urban migration, trade area, hierarchy of market structure, and formation of suburban apartment complexes.[9] While exporting industries have introduced new products in local

TABLE 7 Changing Contribution of Distribution Industry to GNP.

	Period											
	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
	Industry											
Distribution	18.5%	20.3%	21.4%	31.5%	22.4%	23.4%	24.2%	25.2%	24.5%	24.1%	23.6%	23.7%
Manufacturing	14.7%	16.8%	18.9%	19.9%	21.7%	23.3%	23.9%	28.3%	30.5%	31.7%	34.7%	35.2%

Source: *Economic Statistical Yearbook*, Bank of Korea. Adjusted by this author from the yearbooks for the period.

markets, there has also been an influx of foreign goods because of the substantial reduction of tariff barriers. It is these environmental changes that have fostered the attractive growth rate of several department stores in central places and some other super-chain organizations of mass merchandising retail institutions. These institutions are expected to play an innovative role in the distribution industry.

3. Challenging Job: The Desire to Introduce Retail Revolution in Korea

The Korean government realized the growing problems in the efficient flow of goods and services from producers to consumers or users. The changing contribution of the distribution sector to the GNP indicates that some positive measures should have been effectively taken since 1972 (Table 7). During the third economic planning period (1972–1976), about $140 million was spent to modernize channel institutions. Some of the issues included a franchise organization of small retailers, dealers' help, government financing for the establishment of warehouses and freight terminals, and modernization of market facilities.

The Korean economy has experienced a drastic inflation rate which has been one of the major public concerns for the viability of sustained economic growth. As a last resort to eliminate cost-push pressure, economic planners have turned their attention to renovating the distribution structure. The impact of complex channel systems on the market structure can be explained by examining the simple diagram presented by Forrester.[10] In Fig. 1, Forrester had simplified distribution structure as a channel network of producer-wholesale-retailer chains. If there is a sudden 10 percent increase in retail sales, there begins a much bigger fluctuation of orders from retailers and wholesalers. The point is that it takes fifty-two weeks before the fluctuation is stabilized, the result of which causes increased distribution costs. If a number of small retailers and wholesalers were intermingled, we could expect amplifying waves of inventory fluctuation, which, in turn, would affect the cost burden to consumers.

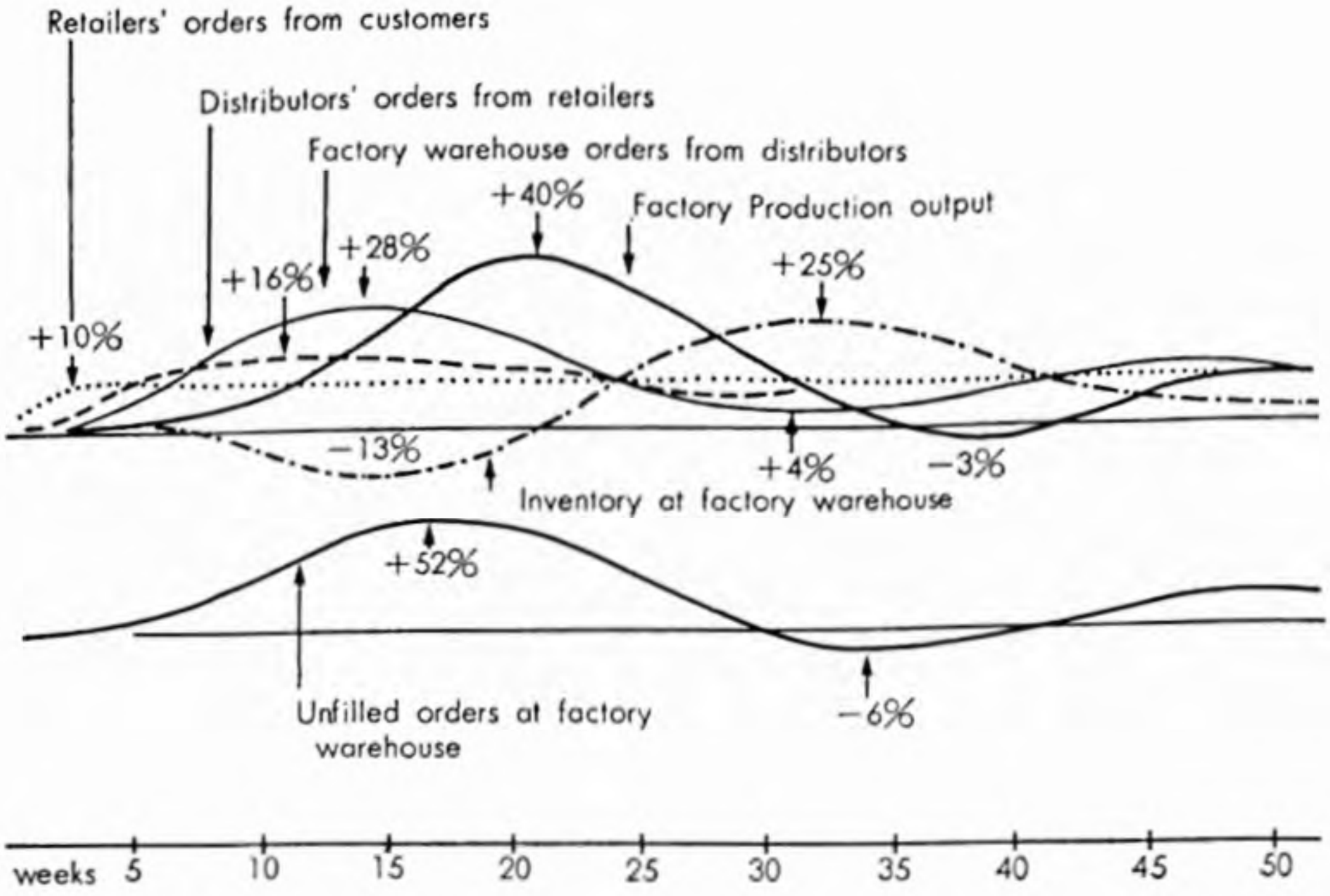

FIG. 1 Response of production-distribution system to a sudden 10% increase in retail sales.

Source: Forrester, J. W., "Industrial Dynamics," *Harvard Business Review* (July August 1958), p. 43.

Consumerism as a social force has always cried out against the price manipulation of middlemen.

4. The Role of Government in Retail Innovation in Korea

In a free economic system the creative vitality of entrepreneurs has been one of the major driving forces in economic growth. However businessmen may not have enough capital and technology to carry out innovative ventures in developing countries. The government may lead the van in building a new retail industry, but the scope and nature of government activities should be limited to a certain degree so that the creative vitality of entrepreneurship will be stimulated.

A government-driven economy may cause serious problems. Businessmen may depend too much on government incentives such as tax benefits and financial assistance. These incentives, which

may induce corruption and waste of the government budget, are detrimental to productive business activities. The following guidelines can be suggested to reorganize the traditional distribution structure in Korea. (1) The government may have to build a more efficient marketing information system for the flow of transportation, inventory control, market information, and market financing. (2) The government should rearrange the marketing laws so that they induce well-established trade practices to protect consumers. (3) The government should take all positive efforts to derive price competition. (4) Market institutions should be geographically rearranged for different ranges of goods. An efficient hierarchy of market institutions should reduce urban migration and unnecessary traffic flow.

5. Future Direction of the Retail Revolution in Korea

Several hypotheses have been proposed to explain institutional change in the retail industry: cycle theories (wheel of retailing, accordion theory), dialectical process, vacuum theory, and the crisis-change model.[11] The recent development of super-chain stores in Korea may be explained by the vacuum theory.

Big business firms in Korea have not actively engaged in distribution. Neither manufacturers nor retailers have been able to find any way in which they could carry out the various needed marketing functions.[12] However, manufacturers are now anxious to find efficient channel types as an alternative means of cost reduction, early collection of sales revenue, and maintenance of market position.

While entrepreneurs neglect marketing opportunities in retailing, consumers in urban areas want to find a new marketing institution to secure quality products at a reasonable price. These economically-minded shoppers are willing to sustain such inconvenience as additional travel in order to buy at a discounted price. There is a growing tendency for cooperative associations to become involved in the market place. This tendency may provide attractive marketing opportunities for innovative retailers. Consumer markets have also been segmented as a result of rising incomes.

It is difficult to predict which types of retail institutions will

dominate the consumer market in the next decade. But those successful may be characterized by the following: wholesalers or retailers with limited marketing functions, low-cost mass merchandising approach, franchise organization of channel institutions, nonstore retailing, and warehouse operating principles.

III. Development of Modern Marketing in the Automobile Industry

1. The Dawning Period (1962-1966)

The Korean War completely destroyed most productive facilities. By 1962 there were many cars available which had been heavily used during the war. Garage technicians became skillful in remodeling the used parts. The foundation of today's auto industry in Korea can be traced back to the protection law of the automobile industry in 1962. Neither government nor business could afford to build an automobile plant at that time, but under the veil of capital formation, the government allowed one motor company to begin importing small Japanese cars. This was the beginning of local demand for automobile parts, a good sign for parts manufacturers. Since the supply of cars fell far short of the demand, marketing was neglected in these days.

2. The Formative Period of the Automobile Industry (1967-1971)

In 1967, several motor companies such as Ford, Fiat and Toyota began to assemble small cars. The major competitive weapon was not price but engineering qualities suitable to local conditions. The level of demand was much greater than that of supply. Order lead time was on average up to six months. Local prices of small cars were two or three times higher than those in the international market. During this period, both motor companies and parts suppliers had accumulated capital and a certain level of technology. The government had even set a regulative quota in order to discourage the increasing demand for cars. There were no distinctive marketing efforts on the part of motor companies. Taxes and fees covered almost 40 percent of the final price that consumers had to

TABLE 8 Historical Progress of Developing Modern Marketing in the Automobile Industry.

	The Dawning Period (1962–1966)	The Formative Period (1967–1971)	The Localization Period (1972–1976)	The Market Development Period (1977–Present)
I. Environmental Forces				
A. Gov. Policies				
1. Automobile industry	Protection law for auto industry (62.5)	—	Presidential message for the promotion of auto industry (73.9)	Suggestions for mass production
2. Technology development	—	—	Selection of affiliated firms for parts production (75.1)	8–10% of tax allowance for R & D Reserve fund for R & D
3. Tax benefits and financing to create local demand	—	Regulative quota for passenger cars for private use	Replacement fund of worn-out cars and buses for business	Accelerated depreciation for plant and machinery. Passenger cars for business should be replaced within three years.
4. Others				
B. Development of auto industry and competitive structure	Remodeling worn-out cars used in Korean War. Domestic cars were produced.	Several motor companies were established. They assembled Fords, Toyotas, and Fiats.	Hyun Dai Motor introduced its own model, Pony, successfully. General Motors Korea introduced several GM models. Kia motor also successfully introduced small cars.	The major motor companies have enjoyed substantial growth.
C. Road situation in meters (the length of road over no. of passenger cars)	$\frac{27,169,111}{30,814}$ = 881.71 (1962)	$\frac{34,799,454}{60,697}$ = 573.33 (1967)	$\frac{42,867,617}{150,035}$ = 215.72 (1972)	$\frac{45,974,718}{343,836}$ = 133.65 (1978)
II. Marketing Resource Deployment				
A. Product-Market Components: Brand No. of cars sold Market share (%)				

Continued overleaf

may induce corruption and waste of the government budget, are detrimental to productive business activities. The following guidelines can be suggested to reorganize the traditional distribution structure in Korea. (1) The government may have to build a more efficient marketing information system for the flow of transportation, inventory control, market information, and market financing. (2) The government should rearrange the marketing laws so that they induce well-established trade practices to protect consumers. (3) The government should take all positive efforts to derive price competition. (4) Market institutions should be geographically rearranged for different ranges of goods. An efficient hierarchy of market institutions should reduce urban migration and unnecessary traffic flow.

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		68	69	70	71	72	73	74	75	76	77	78
1. Hyundai	—	Cortina,	Ford 20M			Cortina,	Ford 20M,		Pony			Mark IV
			5,589	2,910	2,001	2,705	4,880	5,844	4,875	14,048	26,952	56,067
			30.4%	20.8%	19.2%	32.8%	39.1%	39.1%	28.0%	57.0%	62.2%	65.5%
2. Saehan (G.M.K.)	—			—		Rekord, Chev.1700, Camina					Camina, Gemini, Rekord	
						810	7,143	1,580	2,685	3,629	4,508	11,813
						9.8%	57.3%	21.2%	15.4%	14.7%	10.4%	13.8%
3. Kia	—			—				Brisa I, Brisa II			Brisa I, Brisa II	
								21	9,874	6,975	10,249	16,539
								0.3%	56.6%	28.3%	23.7%	19.3%
4. Asia*	—			Fiat 124		Fiat 124						
				1,122	2,545	1,981	444					
				8.1	24.3	24.0	3.6					
5. Shin Jin (G.M.K.)**	—	Corona,	Crown									
		12,816	9,936	5,899	2,752	2						
		69.6%	71.1%	56.5%	39.4%							
Total no. of small cars sold in Korea		18,405	13,968	10,445	8,248	12,469	7,445	17,434	24,602	43,323	85,601	

B. Price Components: Retail prices have been maintained at the same level all over the country. The changing components of price terms were not traced in this table over the last 17 years.

		Base price	taxes	fees	total price	% of taxes & fees to total price
1. Typical price structure as of Sept. 23, 1979	Pony 1238 cc standard	$3,834	$1,142	$1,233	$6,209	38.3%
	Gemini 1492 cc DLX	$4,495	$1,340	$1,728	$7,563	40.6%
	Brisa 1272 cc K303	$4,201	$1,252	$1,252	$6,705	37.3%

2. Changing ratio of basic price and taxes to per capita GNP for small cars from 1974 to 1978:

year	74	75	76	77	78
ratio	12.0	8.0	6.0	5.0	4.5

* Asia Motor was affiliated with Kia Motor Co.

** Shin Jin Motor was affiliated with Saehan Motor Co.

*** Data in this table are approximate.

bear. Price levels were also regulated by the government. Since consumers were waiting in line, motor companies did not have to put much emphasis on marketing activities.

3. The Localization Period (1972–1976)

The core of marketing includes consumer satisfaction and consumer welfare. Automobile models developed in foreign countries did not exactly fit the local conditions. The survival and growth of a motor company depended on the engineering quality of its cars in this period. It was Hyundai Motor Company that realized the importance of its own model; the "Pony" was the successful crystallization of Hyundai's marketing concept. Shin Jin (GMK)-Saehan (GMK) Motor had enjoyed more than 50 percent of the market share up to 1973. The Chevy 1700, the small car model selected by G.M.K., was not at all successful compared to other models such as the Cortina, Pony, and Brisa. G.M.K. has consistently been the most active in sales efforts of all motor companies, but, at least in the small car market in Korea, it has been proven that an aggressive sales concept cannot beat an honest marketing concept.

4. The Market Development Period (1977–Present)

Since 1975, the productive capacities of the three major motor companies have substantially increased to cover the local market. There must be a certain level of demand in order for these plants to remain in full operation. The total volume of small car sales increased sharply from 7,445 in 1974 to 85,601 in 1978 but it is questionable whether such accelerated growth can continue in the decade ahead. It is possible to deduce the kinds of traffic problems in urban areas (Table 8). If we count *all* types of cars on the road, thc length of road per car is less than 133.65 m. Considering the soaring gas prices, high rates of taxes and fees, and other maintenance expenses the saturation level of the domestic market may not be far away. If domestic industry sales are growing 30 percent yearly, what kinds of marketing strategies are most appropriate for the three motor companies? Which model of small cars will dominate the local market in the near future? What is the size and

trend of the domestic market for small cars in the future? These are some of the questions that each motor company is facing.

5. Marketing Practices of the Auto Industry in Korea

As stated earlier, motor companies do not have to make additional efforts in marketing. It may take another generation for the Korean motor companies to use marketing strategies such as those adopted by the famous motor companies in the world. In this section, current marketing practice is briefly described. A detailed analysis of marketing efforts has not yet been published.

Product studies:

It is not easy to develop a new model which is uniquely fitted to the local market; therefore, product managers are primarily concerned with functional or stylistic modifications of existing models.

Market studies:

There have been few attempts to apply consumer behavior models to find determinant attributes and evaluative criteria in the target market. Each company has used market segmentation techniques for the determination of sales branches and sales planning.

Channel studies:

Three types of distribution channels have been adopted:

(a) manufacturer—sales branch—consumers
(b) manufacturer—sales agent—consumers
(c) combination of the above two types

Most of the marketing functions are performed by manufacturers. The major job of a sales agent is negotiating with customers. Since such agents are selected from large garages, they are interested in securing repair work. The requirements which must be met by garages are so rigorous that facilities alone cost at least $200,000.

Price studies:

Demand has been much larger than supply. The automobile market is also characterized by an oligopolistic structure. The government has engaged in coordinating the market price based on full-cost pricing. Therefore motor companies have adopted skimming policies, target pricing and going-rate pricing. The local price is usually twice the price set in the international market. The major factors that are considered in pricing are production

TABLE 9 Historical Trend of Advertising Message Contents (1967–1979).

Year	Brand	Attributes stressed in advertisements																						
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23
67	Corona																	O						
68	Publica																							
69	Cortina		O						O	O				O		O								O
70	Fiat					O								O			O	O						
70	Ford-20M		O			O							O				O							
71	Corona 1600				O													O						
71	New Cortina					O												O		O				
73	Rekord				O	O								O							O			
73	Chevy 1700																O	O			O			
75	Rekord Royal			O		O		O					O	O										
76	Camina					O				O					O	O	O	O				O		
76	Pony																O	O						
76	Brisa																							
79	Gemini				O	O												O						
79	Granada	O						O		O				O	O	O					O	O		
Total frequency of each attribute over 15 models		1	2	1	3	7		2	1	3			2	5	2	3	5	8		1	3	2		1

I. Comfort and convenience
1. Heater
2. Ventilation
3. Air conditioner
4. Roominess
5. Seat
6. Instrument legibility
7. Ash tray accessibility
8. Door handle operation
9. Visibility
10. Ease of getting in and out
11. Luggage capacity

II. Operation
12. Transmission
13. Brakes
14. Ease of handling
15. Freedom from breakdowns
16. Durability

III. Performance
17. Drivability
18. Acceleration from standstill
19. Passing acceleration
20. Starting ease
21. Riding quality
22. Handling ease
23. Highway stability
24. Gasoline economy

IV. Styling
25. Overall exterior appearance
26. Front-end appearance
27. Side appearance
28. Wheel appearance

Continued overleaf

(see key below for list of attributes by number)

24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	Total No. of Mentions
O	O																									O	O		2
																										O			1
								O					O													O		O	7
	O				O																				O	O	O		12
	O															O				O		O						O	5
	O								O																			O	1
O																												O	9
O	O					O																	O			O			3
O																										O			4
	O						O	O				O			O		O					O							3
O						O	O	O																		O	O		2
O	O																												4
																													1
																											O	O	5
								O											O									O	2
6	7				1	2	2	4	1				2			2		1	1		1		3		1	7	4	6		

29. Rear-end appearance
30. Grill appearance
31. Bumper appearance
32. Tail light appearance
33. Overall interior styling
34. Instrument panel styling
35. Steering wheel styling
36. Appearance of seats
37. Upholstery appearance

V. Workmanship

38. Body workmanship
39. Exterior moulding fit
40. Fit of doors
41. Paint finish
42. Quality of chrome trim
43. Window operation
44. Freedom from leaks
45. Overall quietness
46. Level of engine noise

VI. Others

47. Prestige of car
48. Warranty coverage
49. Future resale value
50. After-sales service & parts
51. Order lead time
52. Safety features

Source: Reynolds, F. E. and Wells, W., *Consumer Behavior* (New York: McGraw-Hill, 1977), p. 226.

costs, returns on investment, financial ability of consumers, and pricing practices of other companies. Since the channel structure is integrated by manufacturers, the distribution cost is almost negligible in pricing.

Promotion studies:

Personal selling is widely used by each company. District sales managers evaluate their salesmen on the criteria of job performance, sales planning, customer education, and training. Manufacturers have adopted various measures for sales promotion. Table 9 describes the historical trend of advertising message content in daily newspapers for the period from 1967 to 1978. For each of the five newspapers (two business papers and three leading papers in Seoul), five weeks per year were randomly selected for analyzing such advertisements. Among the attributes mentioned more than four times were seat comfort, brakes, durability, drivability, gas economy, overall appearance, price, after-sales service and parts, and safety.

The following attributes were not mentioned at all: instrument legibility, ease of getting in and out, luggage capacity, acceleration from standstill, handling ease, appearance of front, side, seat, and wheel, styling of instrument panel, steering wheel, body workmanship, moulding fit, paint finish, freedom from leaks, level of noise and warranty coverage.

Summary

Marketing discipline can contribute to the economic growth and welfare of a society. Marketing decisions also direct the flow of scarce resources. In this paper development of marketing in general has been traced by reviewing the available literature along with the series of five-year economic plans. This historical analysis was designed to learn the following:

(1) What were the major product lines of marketing studies in each period? Was there any relation between these products and the stages of economic growth?

(2) What kinds of marketing techniques have been introduced?

(3) Which marketing activities have received most attention from the researchers?

(4) What are the major environmental forces that direct and constrain marketing activities?

(5) What is the role and position of automobile marketing in Korea?

From the above analysis, distribution structure and channel institutions are noted as the emerging bottlenecks in economic progress. Therefore the second part of this paper has focused on the previous studies of channel structures. The future direction of the retail revolution was also described in the latter section of part two. The third part offered a brief history of the automobile industry and its development of marketing. The automobile industry has been protected by government policies. Demand has always been greater than supply. Motor companies do not have to make additional efforts in marketing.

Table 8 describes the major changes in the automobile industry over the last seventeen years. The crux of marketing success in the Korean automobile industry seems to have been the engineering quality of cars and their adaptability to unique local conditions. An aggressive sales concept cannot beat an honest marketing concept.

Since 1975, productive capacities have been substantially increased. Motor companies have realized the need to secure a certain level of demand in order to enjoy economy of scale. Some positive measures must be taken by these companies if they are to survive and grow in the future.

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3. This classification scheme is adjusted from the following reference. Fisk, F., "The Functions of Marketing Research," in *Handbook of*

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12. The major reasons can be explained by the following factors: lack of capital and managerial ability, limited variety of product lines, and too many "corner stores," most of which are owned and operated by family members.

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